

1983 Annual Report



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ABOUT THE COVER
Hershey's consumers are key to current and future growth. Some of the strategies Hershey uses to meet changing consumer trends are discussed on page 5.

HERSHEY FOODS CORPORATION is a major producer of chocolate and confectionery products; operates a chain of restaurants; is a major producer of pasta products; and operates an office coffee service plan.

Hershey has chocolate and confectionery producing facilities in Hershey, Pa.; Oakdale, Calif.; and Smiths Falls, Ontario, Canada; and a confectionery producing facility in Stuarts Draft, Va. In addition, the chocolate and confectionery segment includes the H.B. Reese Candy Company with its production facility in Hershey, Pa., and Y & S Candies, a manufacturer of licorice-type candies with plants in Lancaster, Pa.; Moline, Ill.; Farmington, N.M.; and Montreal, Quebec, Canada.

Friendly Ice Cream Corporation, headquartered in Wilbraham, Mass., operates approximately 670 restaurants located primarily in the Northeast and Midwest, which serve high quality, moderately-priced menu items and specialize in ice cream, sandwiches, and informal meals. San Giorgio-Skinner Company has pasta manufacturing facilities in Lebanon, Pa.; Omaha, Nebr.; and Louisville, Ky. Petybon Industrias Alimenticias Ltda., a wholly-owned Brazilian subsidiary, also produces pasta as well as biscuits and margarine. Cory Food Services, Inc., Chicago, Ill., provides one of the nation's largest office coffee service plans.

The Corporation's principal executive offices are in Hershey, Pa. The Corporation had 14,310 full-time employees and 16,467 stockholders on December 31, 1983.

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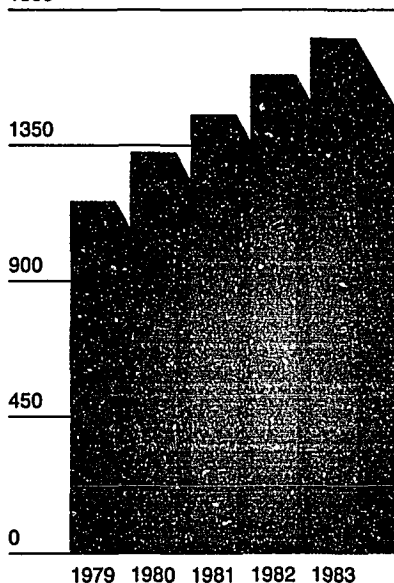
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1983 FINANCIAL HIGHLIGHTS

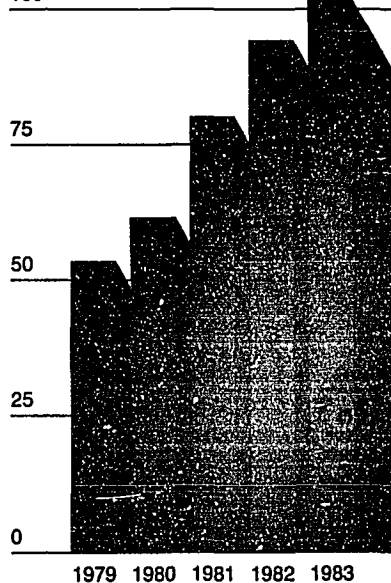
(in thousands of dollars except shares and per share amounts)	1983	1982	% Change
Net sales	\$ 1,706,105	\$1,565,736	+ 9
Net income	100,166	94,168	+ 6
Net income per common share	3.20	3.00	+ 6
Cash dividends per common share	1.10	1.00	+ 10
Cash dividends paid	34,470	31,337	+ 10
Capital additions	105,244	116,736	- 10
Stockholders' equity at year-end	596,037	532,495	+ 12
Price per common share at year-end	31.63	28.19	+ 12
Equity per common share at year-end	19.02	16.99	+ 12
Outstanding common shares at year-end	31,337,112	31,337,112	—
Weighted average shares outstanding	31,337,112	31,337,112	—

All shares and per share information have been restated for the two-for-one stock split effective September 15, 1983

NET SALES
(dollars in millions)
1800



NET INCOME
(dollars in millions)
100



LETTER TO STOCKHOLDERS

We are pleased to report to our stockholders that 1983 was another year of record sales and earnings for Hershey Foods Corporation. This record performance reflects the excellent operating results posted by our major divisions tempered somewhat by higher net interest expense and a higher effective income tax rate, both of which were anticipated. In spite of intensified competitive conditions, our three major divisions, Hershey Chocolate Company, Friendly Ice Cream Corporation and San Giorgio-Skinner Company, posted market share gains, volume growth and increased operating margins.

Hershey Chocolate Company capitalized on the continued strength of its established brands and the success of its new product introductions to achieve unit volume gains and another year of record results. Halloween sales rebounded well in 1983; an equitable three-year labor settlement was completed with our main concentration of employees; and a price increase was instituted for the Company's standard chocolate bar lines based on recent increases in commodity prices, all of which help to position our chocolate and confectionery operations for continued profitable growth in 1984.

Friendly Ice Cream Corporation had an outstanding year as its sales increase was primarily attributable to volume gains stemming from the consumer's response to quality and value. Friendly's attention to service, marketing, cost control and quality enabled our restaurant division to be in the forefront of an industry which has strengthened significantly since mid-1982. The continuing programs to remodel existing restaurants and open new restaurants at prime locations will enable Friendly to grow profitably at an accelerated rate.

In a time of extreme competition from subsidized imports and industry-wide price competition, San Giorgio-Skinner Company had a successful year in terms of volume, sales and operating income

growth. This progress is attributable to brand loyalty supported by high quality products, well-conceived marketing programs, and efficient production methods. We feel this approach to the pasta industry will hold us in good stead for the future.

The new management team at Cory Food Services, Inc. continued to revamp the structure of its coffee service business during 1983, but Cory's financial results for the year were well below expectations. Likewise, Hershey Canada Inc. had a difficult year because of the market environment for its particular businesses; and the continued strength of the U.S. dollar in relation to other currencies hampered results for Hershey International Ltd.'s operations.

During 1983, the Company's commodity costs were lower than those incurred during 1982. It should be noted, however, that U.S. sugar users continue to pay prices considerably in excess of the world sugar price as a result of the Federal government's program of import quotas and duties. Also, in recent months we have witnessed a significant increase in the price of cocoa beans, almonds and peanuts and somewhat lesser increases in most other raw material commodities. We are confident, however, that we can manage commodity procurement to ensure the best possible price to the Company under prevailing circumstances.

We hope you, as stockholders, share our feeling of pride as the market has continued to recognize the value of your Company. This can be noted best in the continued appreciation of your investment, a rate of growth that significantly exceeds the growth of the Consumer Price Index. Our September stock split has been well-received by individual and institutional investors, and the increased number of shares should enhance the liquidity of Hershey's stock.

Accompanying the stock split was the Company's ninth consecutive annual increase in the regular quarterly dividend. This increase of 9.5 percent reflects our policy of sharing the Company's profits with our stockholders, while we retain sufficient earnings to assist in supporting Hershey's growth.

The Company continued to invest significant amounts in capital projects to support future growth. Hershey Chocolate Company's new Eastern Distribution Center will assist in making our chocolate and confectionery distribution system more efficient. Friendly added 32 new restaurants, indicating an accelerated rate of new restaurant openings as the program of remodeling the traditional restaurants enters its final phase. Funds were also invested in production and processing equipment to modernize existing facilities in all our major divisions. Looking ahead, we expect capital additions again to be in the \$100 million range in 1984.

Executive Changes

As we entered 1984, there were some significant management changes beginning with Harold S. Mohler's retirement as Chairman of the Board. Effective January 1, 1984, William E. C. Dearden, former Vice Chairman and Chief Executive Officer, was elected Chairman of the Board; and Richard A. Zimmerman, former President and Chief Operating Officer, was elected President and Chief Executive Officer.

In addition, Dr. Ogden C. Johnson, former Executive Vice President; Kenneth L. Wolfe, former Vice President, Finance and Chief Financial Officer; and Joseph P. Viviano, former President and Chief Executive Officer of San Giorgio-Skinner Company, were elected Senior Vice Presidents of the Corporation. Kenneth L. Bowers, former Director, Public Relations, was elected Vice President, Corporate Communications; and C. Mickey Skinner, former Executive Vice President of San Giorgio-Skinner Com-

pany, was elected President and Chief Executive Officer of that division.

Board Changes

Effective September 1, 1983, Dr. Sybil Collins Mobley, Dean of the School of Business and Industry, Florida Agricultural and Mechanical University, was elected to the Board. Effective January 1, 1984, Dr. Ogden C. Johnson and Kenneth L. Wolfe, both Senior Vice Presidents of the Corporation, were elected to the Board. We also want to make special mention of Philip A. Singleton, Chairman and Chief Executive Officer of Singleton Associates International and a Director since 1976, who will not stand for reelection to the Board in anticipation of his retirement at the end of April 1984, having reached his 70th birthday. We are most appreciative of his excellent contributions to the Board during his tenure as a Director and wish him well in all of his future endeavors.

While there are new faces in new positions at Hershey, there is also a strong thread of continuity. The senior management of your Company has now had almost eight years of experience with the strategic planning process and the strong sense of direction which it provides. Our first full year of operation under our strategic plan was 1977, and since that time, the Company's sales, net income and book value have more than doubled. Our diversification of product line within Hershey Chocolate Company and the success of our acquisitions in the restaurant and pasta businesses have given Hershey greater stability and enhanced growth potential. Most importantly, everyone at Hershey has embraced the process and makes it work.

We are convinced that Hershey is positioned for continued profitable growth through four strong attributes which give our Company direction. As mentioned previously, there is the



William E.C. Dearden

Richard A. Zimmerman

strategic planning process. Planning for the long-term future has been entrenched as a way of life at Hershey, and we certainly plan to strengthen and rely on the process going forward. Second, we have in place a very stable, dynamic and young key management group. Many of our key managers are in their forties or younger and yet they are already proven veterans when it comes to meeting business challenges.

Third is the quality of our products and services, supported by excellent marketing programs. We know our brands are among the greatest resources of the Company, and we plan to improve products and services wherever and however we can in order to retain and build upon the confidence the consumer has placed in the Hershey family of companies for generations. Fourth and finally, we have always believed that the ethical standards of the Company and the integrity of all individuals who represent our companies in dealings with suppliers, customers and consumers are prerequisites for successfully developing our businesses.

To all employees, we would like to extend our thanks and congratulations for a job well done in 1983's difficult business environment. We know the future will be no less challenging, but we undertake the new year with confidence in our employees' ability to turn challenges into opportunities.

Chairman of the Board

President and
Chief Executive Officer

March 8, 1984

HAROLD S. MOHLER RETIRES

The career of Harold S. Mohler has carried him from Industrial Engineer to Chairman of the Board of Hershey Foods Corporation—a career encompassing a period of unprecedented change and dynamic growth for Hershey. After 35 years of service, Mohler retired from the Company on March 1, 1984.

A native of Ephrata, Lancaster County, Pennsylvania, Mohler has been an enthusiastic worker since an early age. As a youth, he sold produce door-to-door, delivered newspapers and worked as a store clerk. As if to forecast his career, his high school yearbook described him as "a born leader."

After serving as an Air Force Navigator during World War II and then receiving a degree in industrial engineering from Lehigh University in 1948, Mohler immediately began his business career with Hershey as an Industrial Engineer. Subsequently, as his work broadened from manufacturing and engineering to administrative functions, he was promoted to Assistant to the President in 1957, Vice President in 1962, and to President in 1965. He became a member of the Board of Directors in 1960. In 1974, he was elected Chairman of the Board. He became Chairman of the Board's Executive Committee in 1976.

During his years as President, Mohler led the Corporation through its decision to diversify beyond chocolate products—and expand into other food and food-related fields, without impeding the growth of the chocolate business. In 1968, the Company changed its name from Hershey Chocolate Corporation to Hershey Foods Corporation, to more accurately project the identity of the Company in the years ahead. Also during that year, after much discussion and planning within the Company, Mohler announced that Hershey would change its original no-advertising policy and develop a consumer advertising program for its confectionery and grocery products.



These decisions brought Hershey into the sphere of modern marketing and advertising.

Dedication to his work, an inquiring attitude, an open mind and a genuine respect for people are traits that have led Mohler to many leadership opportunities beyond Hershey Foods Corporation. Aside from being a member of the Corporation's Board of Directors since 1960, Mohler has served as Chairman of the Hershey Trust Company and the Hershey Bank, as a member of the Board of Managers of Milton Hershey School, and as a director of The M. S. Hershey Foundation, HERCO Inc., the Pennsylvania Power and Light Company and Ashland Oil, Inc.

Through the years, Mohler has been an active participant in his community, profession and industry. He has also served as director or trustee—and often as chairman—of numerous trade and industry associations, educational institutions and other corporations. Throughout his career he exhibited a keen interest in, and understanding of, the relationship of business and government. He actively sought to foster that relationship for Hershey and for industry in general. As a part of those activities, he served as Chairman of the national organization, Business-Industry Political Action Committee (BIPAC),

and of Pennsylvanians for Effective Government (PEG).

Mohler has also been the recipient of many notable awards, including being named Candy Man of the Year by the Association of Manufacturers of Confectionery and Chocolate. He also became the first recipient of the Outstanding Engineer in Management Award presented by the Pennsylvania Society of Professional Engineers in 1981. In 1975, he was awarded an honorary doctor of laws degree by his alma mater, Lehigh University, where he is presently Chairman of the Board of Trustees. In 1979, Elizabethtown College also awarded him an honorary doctor of laws degree. Lebanon Valley College honored him with its 1984 Founders' Day Award.

Under the guiding hand of Harold S. Mohler, Hershey Foods Corporation has grown significantly—from principally a chocolate-manufacturing firm to a multi-product, multi-plant corporate organization with ever widening participation in the food industries of America and around the world. Harold Mohler's leadership, his integrity, his professional achievements and his contributions to the industry will remain an integral part of the heritage and strength of Hershey Foods Corporation.

HERSHEY AND THE CONSUMER

"Give them quality and value - that's the best kind of advertising there is."

This famous quote by Milton S. Hershey continues to dominate Hershey Foods Corporation's approach to consumers, and that will never change.

But consumers themselves have changed a great deal since the turn of the century when Mr. Hershey introduced the **HERSHEY'S Milk Chocolate Bar**.

Not only do today's consumers demand a good value, their expectations have become increasingly complex; thus, Hershey, on both the corporate and divisional levels, continues to keep in touch with the consumer's tastes and attitudes in numerous ways.

Hershey's marketing departments gauge consumer preferences through a variety of research techniques, including test marketing.

Hershey's Consumer Relations Department responds to a wide range of consumer letters and telephone calls in the form of compliments, complaints, questions and suggestions, and it monitors the mass and specialized media for trends and developments.

Some of the current trends include busy, fast-paced lifestyles, an increased emphasis on health and fitness, a desire to know more about the foods people eat, and increased popularity of premium priced, gourmet-type foods.

Hershey is attempting to address such trends now while remaining poised for future changes.

For example, within its nutrition information program Hershey develops and distributes educational ma-

terials on the nutritional aspects of Hershey products and related issues of interest to the consumer. Hershey staff members attend several food-oriented conventions each year to provide consumer information to key professionals, such as dieticians, teachers and dentists, to ensure that factual information on our products is readily available.

In addition to seeking more information about the foods they eat, many of today's busy consumers are looking for taste tempting recipes they can prepare in a hurry. Hershey's home economists have responded by developing quick and easy recipes, including many for microwave ovens, for those consumers who enjoy cooking but don't have much time to spend in the kitchen.

Several new Hershey Chocolate Company products are designed to meet specific consumer desires. **TAKE FIVE**, a wafer bar layered with peanut butter creme and covered with milk chocolate, is positioned as a light but satisfying snack for the active, busy adult. The **GOLDEN PECAN Bar**, a premium milk chocolate bar with freshly-roasted pecans, has now joined the **GOLDEN ALMOND Bar** as a specialty item.

Because of their busy lifestyles, many people are eating away from home more frequently. Friendly Ice Cream Corporation has met that need by expanding its facilities into full service restaurants that cater to those looking for good, hearty food at reasonable prices, served in an informal family atmosphere.

Recognizing that these same customers are also seeking a quality din-

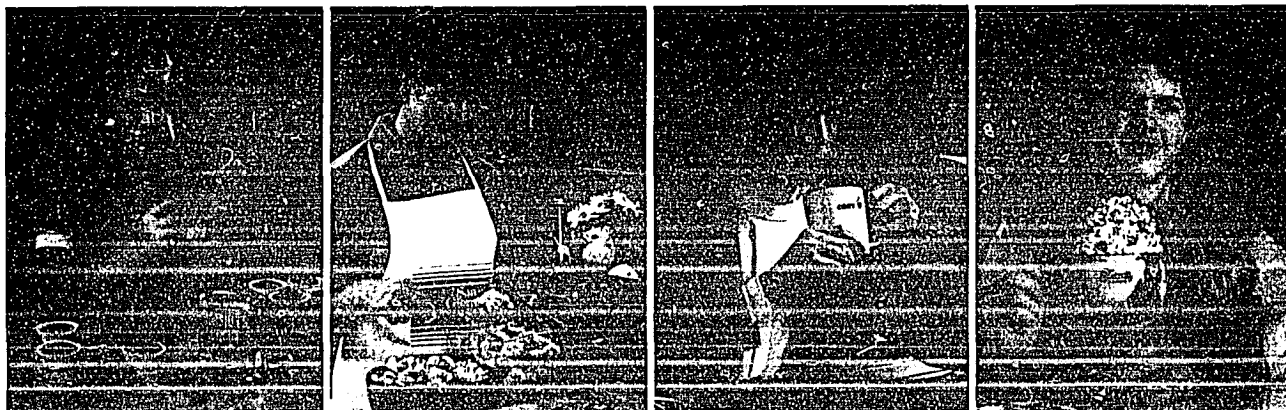
ing experience, Friendly has included in its restaurant expansions improved service systems, more comfortable seating and more attractive decor.

Those consumers seeking nutritious yet low calorie food which is both satisfying and inexpensive find pasta the perfect choice. In recent years, San Giorgio-Skinner Company, with the help of Hershey's home economists, has further enhanced pasta's place in the "low cal" diet by developing recipes for light, low calorie sauces for pasta dishes made with San Giorgio-Skinner Company products.

Cory adapted to one consumer trend by expanding its coffee selection to include coffees for those wishing to reduce their caffeine intake. In recent years, Cory has also added soups, juices and other foods to its line for those who seek a quick lunch or who want an alternative to coffee.

Hershey's efforts to respond to consumer needs go well beyond U.S. boundaries. Hershey Canada Inc. recently reformulated its standard chocolate bar line based on preferences indicated in extensive consumer surveys conducted in that country. Hershey International Ltd. is assessing consumer taste preferences in other countries to determine what role Hershey products can play in those markets.

Hershey has done a great deal in recent years to adjust to the diversity of consumer tastes and lifestyles. This effort, of course, must be ongoing. As in the past, fulfilling the desires of consumers will remain key to the future success of the Company.





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CHOCOLATE AND CONFECTIONERY

HERSHEY CHOCOLATE COMPANY

Hershey Chocolate Company again achieved record levels of sales and operating income in 1983. The sales growth was due primarily to unit volume increases in established products, as well as a continuation of growth in new products, both of which contributed to market share gains during the year. The operating income increase over 1982 was due to a combination of increased sales and higher operating margins.

The higher operating margins were primarily the result of higher gross profit margins due to lower raw material costs, particularly cocoa, and manufacturing efficiencies which more than offset increases in other cost components.

Looking at 1983 sales in more detail, confectionery brands accounted for most of the unit volume growth, and new products accounted for about one-third of this real growth. The sales increase for confectionery products was led by a dramatic increase in the Company's largest selling brand, REESE'S Peanut Butter Cups, which was stimulated by increased advertising and promotional support. KIT KAT, manufactured and distributed in the U.S. under license from Rowntree Mackintosh, was also one of the fastest-growing major brands in the confectionery industry.

The Company experienced a late-summer slowdown in its sales caused by abnormally warm weather conditions. Reversing a disappointing 1982 Halloween season, "Trick or Treating" returned to normal levels in 1983, thereby reducing customer inventories and contributing to a strong fourth quarter performance.

The efforts of Hershey's Field Sales organization were augmented by the recruitment of a sizable force of retail merchandisers, part-time employees who stock shelves and arrange displays of Hershey's products in retail outlets which previously could not be economically contacted. This program, combined with an aggressive campaign of point-of-sale display racks and innovative merchandising techniques, produced excellent

growth in both our standard chocolate bar and BIG BLOCK lines. The upward sales trend for HERSHEY'S KISSES continued with particularly strong performance from Easter, Halloween, and Christmas items.

The new plant in Stuarts Draft, Virginia, successfully completed its first full year of operation. Efficiencies were achieved by a new, but well-trained and highly motivated complement of employees. REESE'S PIECES, with its production transferred to the new plant, continued to benefit from strong marketing support and from the association with E.T.*

New products had a particularly successful year including two important items which were placed into national distribution. SKOR is a crisp, butter toffee bar enrobed with milk chocolate manufactured under license from Hershey's Swedish affiliate, AB Marabou. U.S. production began in the main Hershey plant during the first quarter, and national distribution was successfully attained in August.

NEW TRAIL, a line of granola bars, was successfully expanded to national distribution in this rapidly-growing market segment and helped to bolster dollar sales of the Company's grocery products group. Otherwise, dollar sales of grocery products did not achieve targeted growth due to selected price reductions and intense price competition from manufacturers of both private label and branded products.

The Company's rollout of HERSHEY'S Chocolate Milk, in its distinctive maroon and silver container, has been enthusiastically received by dairies and consumers in all areas of the country where it is available and has helped strengthen Hershey's identity in this non-confectionery field.

A number of products were introduced into regional markets, laying the foundation for future growth of new products. REESE'S PIECES Peanut, a companion product to



REESE'S PIECES, which contains a peanut in a peanut creme center, was launched in the third quarter. At the same time, but in other regions, TAKE FIVE, a wafer bar layered with peanut butter creme and covered with milk chocolate and produced in the Stuarts Draft Plant, was introduced and positioned as a light, but satisfying adult snack.

Building on the success of the GOLDEN ALMOND Bar, a companion item, the GOLDEN PECAN Bar, was introduced in the western half of the country by the Company's Special Markets Group, which during the year completed the development of a national network of sales brokers. GOLDEN PECAN has been received





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enthusiastically by retailers and consumers, and initial sales have been excellent. Two additional items are also being test marketed as extensions to the premium bar line: HERSHEY'S Chocolate Covered Almonds and MARABOU Milk Chocolate Roll, which is imported from AB Marabou in Sweden.

In addition to substantial capital outlays for production equipment associated with the active new products program, a 435,000 square foot Eastern Distribution Center was completed in 1983. Economies were achieved as a result of the availability of this facility, and additional savings, including a reduction in inventory requirements, are expected to be realized in the future.

Sustained progress in the Company's productivity efforts was realized in 1983. Capital expenditures for plant modernization provided a significant impact on cost improvement endeavors. More importantly, in order to involve all employees in improving efficiency, the Company has expanded its productivity improvement effort to all departments.

Although the cost of Hershey Chocolate Company's major raw materials in 1983 was generally less than that experienced in 1982, adverse weather conditions during 1983 in many parts of the world had a negative impact on the quantity of several key commodity crops, particularly cocoa beans, almonds and peanuts. Reflecting this fundamental supply and demand situation, prices for these commodities have recently increased significantly, putting cost pressures on the chocolate and confectionery business for 1984.

Accordingly, the prices of selected confectionery items were increased at the end of 1983. This included the standard chocolate bar line of products, for which the consumer price is expected to increase from 30¢ to 35¢ in most retail outlets. Initial trade acceptance of this price increase has been favorable.

HERSHEY CANADA INC.

Hershey Canada Inc. implemented significant changes in its business during 1983 in the midst of an extremely difficult environment. Despite a recovery in Canada's economy, the markets in which the Company operates were essentially static; major customers continued to reduce inventories; competitive activity was intense; and the hot summer weather hampered chocolate sales. Although Hershey Canada achieved market share progress in most of its major business categories, the Company did not achieve its sales and operating income goals for 1983.

The most notable change in Hershey Canada's business was the complete restaging of the HERSHEY chocolate bar line. This restaging featured a new product formulation which extensive market research indicated was significantly preferred by Canadian consumers. In addition, package graphics on the Hershey bar line were completely redesigned.

The new formula and packaging were introduced in April and were supported by a marketing program which included heavy advertising, consumer sampling, strong trade and consumer promotion, and a public relations campaign. Initial results of this major restaging have been very encouraging. Since its introduction in April, the new HERSHEY bar line has achieved increases in sales, consumer acceptance, and market share.

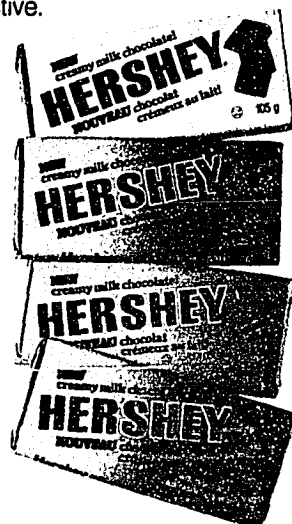
Important changes were also implemented on REESE'S Peanut Butter Cups and SPECIAL CRISP (the Canadian version of WHATCHAMACALLIT) bar lines. The consumer value of both brands was improved by weight increases of 23 percent on REESE'S Peanut Butter Cups and 20 percent on SPECIAL CRISP.

Beginning in the second quarter, Canadian competitors increased prices for standard sized chocolate bars, leading to a consumer price increase from 40¢ to 45¢ in most retail outlets. Hershey Canada found it necessary to follow this industry price increase in July.



Although the Company focused its resources in 1983 on the major changes in its chocolate business, progress was also achieved in the grocery and licorice segments. BROWN COW achieved record-high market share results to strengthen its position as Canada's leading liquid milk modifier brand. HERSHEY'S Syrup, despite strong pressure from a new competitive entry, maintained its leadership position in the sundae topping category. Also, Y&S licorice brands maintained their strong leadership position in the Canadian licorice market.

An important change in the Company's sales organization for 1983 was the addition of part-time sales merchandisers. Following a period of successful testing, the part-time merchandiser program was introduced nationally in July. This program has proven to be successful and cost-effective.





RESTAURANT OPERATIONS

FRIENDLY ICE CREAM CORPORATION

Building upon the strong performance of the previous year, sales and operating income of Friendly Ice Cream Corporation again reached record levels in 1983.

The improvement in sales over 1982 was attributable to the opening of additional restaurants, successful advertising and promotional activity, continuation of the program of refurbishing or modifying existing restaurants, improved customer service by restaurant personnel, favorable weather conditions, increased new product sales and modest price increases.

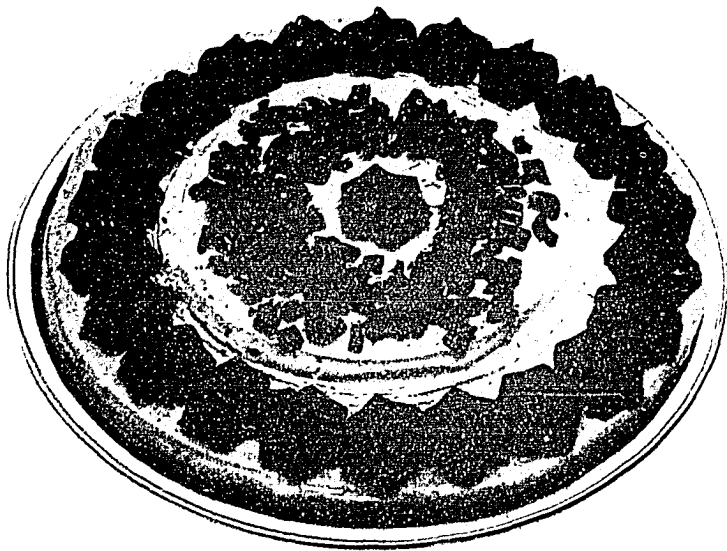
The increase in sales was primarily attributable to real growth. Menu price increases were less than the general industry levels in the Company's operating areas.

Real sales gains, by new and existing units, accompanied by relatively stable costs for food and labor together with cost containment and other productivity enhancements, resulted in improved operating margins compared with 1982.

During 1983, Friendly opened restaurants at 32 new locations, including 30 free-standing units and two located in shopping centers. In addition, a previously closed free-standing unit was reopened, and the concept of a specialty ice cream "dip shop" where customers can create their own sundaes is being tested in a shopping center location.

Of the 30 free-standing units, six restaurants were acquired from another company and converted to Friendly units on a financially attractive basis. The Company plans to convert an additional 14 restaurant locations in 1984. During the year, seven restaurants were closed, and at the end of 1983, Friendly had 667 restaurants in operation.

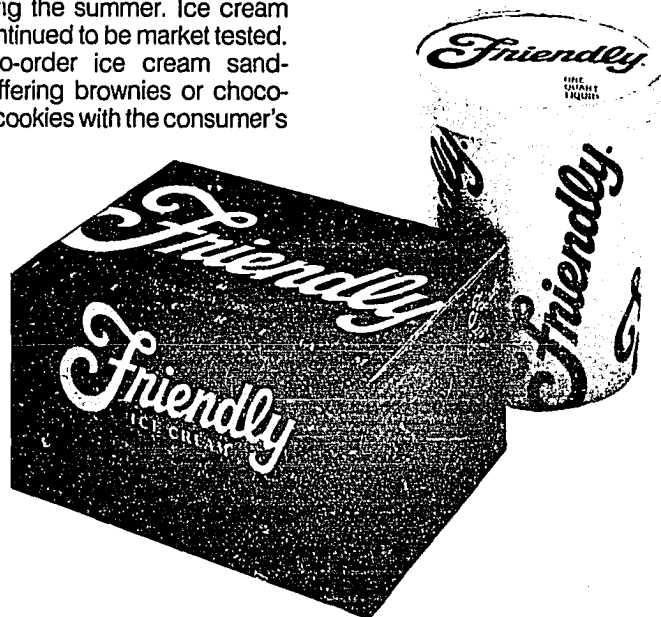
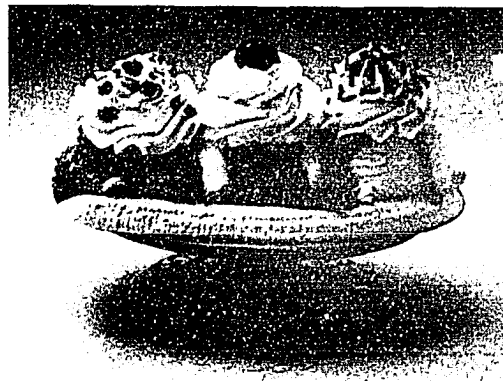
Advertising and promotional activities within the food service industry, particularly in the fast food segment, intensified during 1983. Friendly's activity in this area also increased with successful results.



The "Friendly Summertime Program" introduced a highly appealing dessert menu supported by media advertising. Following the success of the REESE'S PIECES and HERSHEY'S KISS Sundaes in 1982, Friendly introduced the MR. GOODBAR Sundae, as well as a variety of other new ice cream creations, all of which were well received by Friendly customers.

The ice cream pies introduced in mid-1982 enjoyed successful chain-wide sales and became part of the standard pre-packaged product line, along with traditional half gallons and the innovative WATTAMELON ROLL, an extruded sherbet product offered only during the summer. Ice cream cakes continued to be market tested.

Made-to-order ice cream sandwiches offering brownies or chocolate chip cookies with the consumer's





Friendly

choice of ice cream were introduced chainwide in July 1983. Consumer response and sales have proven the FRIENDLY Ice Cream Sandwich to be an excellent product addition.

In November and December, distinctive Friendly take-home holiday ice cream desserts such as the JUBILEE ROLL were promoted on television in most advertised markets.

Also in 1983, testing activities included an improved "in-restaurant" ice cream merchandising section designed to enhance the take-home line. To date, pre-packaged ice cream sales have increased in test units, product quality has improved and storage space has increased. Overall, the new display cabinets have helped to upgrade the quality image and appeal of Friendly take-home products.

The unit modification efforts in progress over the past several years continued in the upstate New York area during 1983 and will be completed in Friendly's Connecticut and Massachusetts market areas during 1984 and 1985. The improved seating arrangements, ice cream merchandising, overall decor package, and a more personalized service system are expected to support the Company's positioning and enhance its consumer franchise in these important markets.

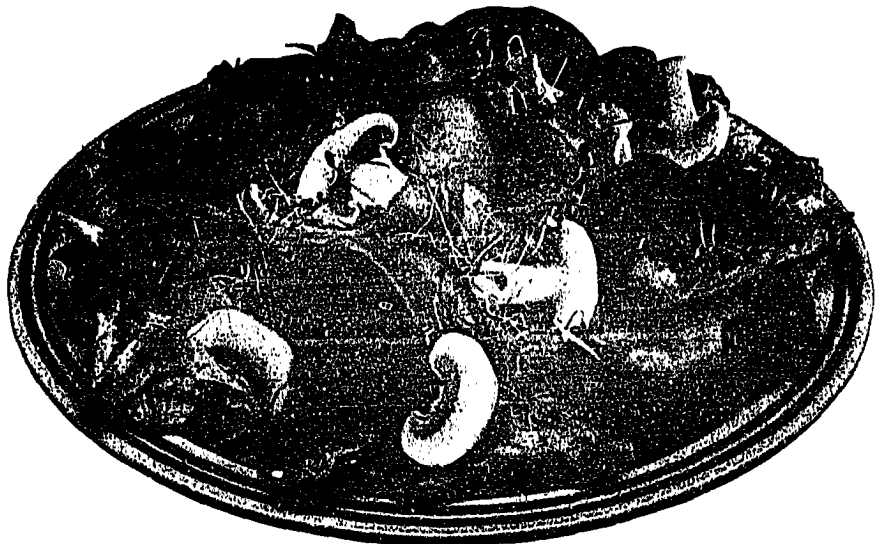
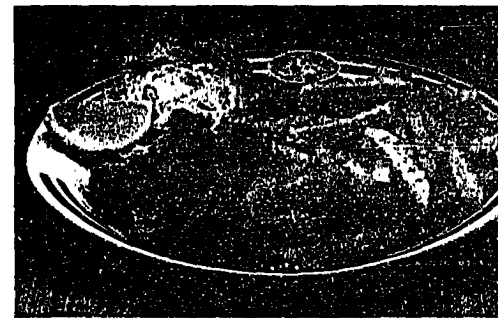
The highly successful Traditions of Excellence motivational program, implemented in 1982, continued to encourage restaurant supervisors and staffs to enhance the high quality of service, making a visit to a Friendly restaurant an even more pleasant experience. Comments received from Friendly's customers indicate this program has had a noticeably positive effect to date.

Prefabricated restaurant building techniques, first used by Friendly in 1982, were advanced during the year resulting in cost savings and reductions in construction time. Two additional variations of the new model

Family Restaurant using these techniques were designed during the year, and Friendly now has three alternatives from which to choose in matching site and market characteristics.

Friendly realized a benefit from its participation in the Federal government's Targeted Jobs Tax Credit Program. The purpose of the program is to encourage the hiring of individuals from those groups which have unemployment rates significantly higher than the national average or have special employment needs. By making a special effort to employ individuals from such groups, Friendly was able to earn tax credits which had a positive effect on the Company's results.

Approximately 10,400 square feet of additional production and office space were added to Friendly's Wilbraham, Massachusetts, headquarters location. Installation of equipment in the new production area was nearly completed at year-end 1983. Upon completion, this new facility will enhance the Company's capacity for the production of ice cream pies and extruded products such as WATTAMELON ROLL.





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OTHER FOOD PRODUCTS AND SERVICES

SAN GIORGIO-SKINNER COMPANY

San Giorgio-Skinner Company achieved record levels of sales and operating income for the fifth consecutive year. This was an especially gratifying performance because all five of the Company's brands, SAN GIORGIO, SKINNER, DELMONICO, P & R, and LIGHT 'N FLUFFY, made positive contributions to this record in a marketplace where competitive activity continued to intensify.

As in 1982, generally stable commodity costs continued to make heavy promotional activities possible, which resulted in further increases in the level of competitive activity among domestic firms. There was also a continued influx of lower priced imports which impacted the marketplace. Against this background, the San Giorgio-Skinner brands enjoyed volume increases and improved their overall market share. The Company also achieved improved operating margins.

The SAN GIORGIO brand was particularly vigorous in the New York City market where it was the only major domestic brand to gain market share in the face of a rising tide of subsidized imported brands. The brand also gained major new distribution in its expansion to the Virginia market.

The SKINNER brand had one of its finest years, gaining key distribution in the Wisconsin, Alabama, and West Texas markets. As a favorite brand in many parts of the Sunbelt, it has been a beneficiary of a population that is both growing in numbers and consuming more pasta.

Both the DELMONICO and P & R brands remained strong during the year and further enhanced leadership positions in their respective marketing areas. Geographic expansion of LIGHT 'N FLUFFY Dumplings and LIGHT 'N FLUFFY Ripplets propelled that brand to new highs in sales for the year.

Although imported pasta is being purchased in increasing amounts, consumers are turning away from less expensive generic products. Private label pasta sales also declined as consumer buying momentum continued to swing back toward branded products in the improving economy.

There was an adequate supply of durum wheat in 1983 because of the excellent harvests in 1981 and 1982. Production in 1983 was 32 percent below 1982 due to the Federal government's Payment in Kind Program and reduced yields because of the extremely hot weather. Despite this decline in production, there was an adequate durum harvest in the fall of 1983.

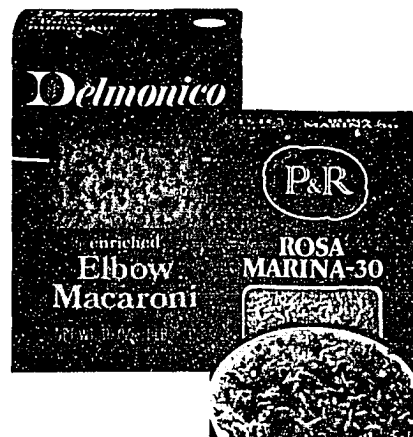
With sufficient durum stocks, continued growth is expected for the American pasta industry as a whole and San Giorgio-Skinner Company's brands in particular. To prepare for that growth, both the Omaha and Lebanon plants are making substantial additions to production capacity with completion dates in mid-1984.



CORY FOOD SERVICES, INC.

The new management team at Cory Food Services, Inc. continued to revamp the structure of its coffee service business during 1983; however, Cory's financial results were well below expectations.

Coffee sales were less than anticipated compared with the prior year





primarily because of severe competitive price pressures and the hot summer months. Revenues derived from the sale of allied products and leased equipment continued to improve in 1983.

The generally lower level of sales and increased selling and marketing expenses contributed to the lower operating results in 1983.

Cory recognizes that market conditions and customer perceptions have changed dramatically since the coffee service concept was introduced in the mid-1960's. Thus Cory is addressing its approach to this changing marketplace.

During 1982, Cory focused on the basic issues: sales training, modified sales and management compensation programs, total restructuring of product pricing, and the introduction of leased equipment and other programs which enable Cory to expand beyond its core business. The year 1983 was devoted to reinforcement of these basics to assure strict implementation.

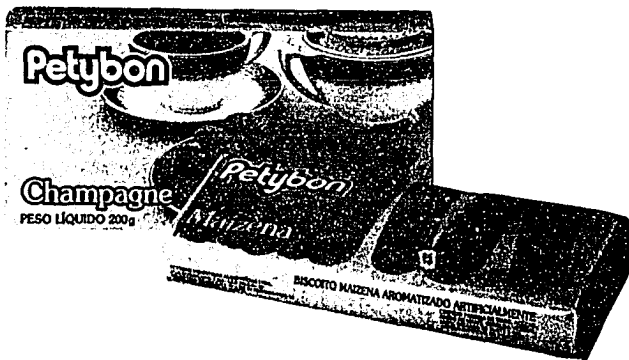
To this end, the field management structure was totally reorganized in October to maximize productivity. Sales and customer service responsibilities and accountability were separated to focus management expertise in these vital areas. Having attained a clearer sense of direction in 1983, Cory has positioned itself for growth in 1984.

PETYBON INDUSTRIAS ALIMENTÍCIAS LTDA.

Petybon Industrias Alimenticias Ltda., Hershey's wholly-owned Brazilian subsidiary, had improved operating results in 1983 compared with the previous year. Petybon's sales contribution to this segment increased primarily as a result of the inclusion of a full year's sales in 1983 versus only six months' in 1982. In mid-1982, Hershey purchased the remaining interest in Petybon which was previously a 40 percent-owned joint venture.

Operating income improved in 1983 compared with 1982 despite the severe economic environment in Brazil, including government-mandated controls during part of 1983 which prevented Petybon from increasing selling prices sufficiently to maintain operating margins. This improvement was achieved through a number of cost-containment programs implemented by the Company. Interest expense increased significantly, however, reflecting higher levels of short-term borrowings at increased interest rates to support working capital requirements.

With the general decline in purchasing power, the Brazilian consumer has been trading down from higher-priced premium items to lower-priced pasta and biscuit products. To meet the demand, Petybon adapted its product line and increased sales of its lower-priced FAMILIAR pasta and biscuit lines, as well as its margarine line. In addition, the Company successfully launched a new tea biscuit called PAVANA which has gained good consumer acceptance.



OTHER CORPORATE ACTIVITIES

HERSHEY INTERNATIONAL LTD.

For Hershey International Ltd., 1983 was a difficult year. The continuing strength of the U.S. dollar relative to other currencies and the economic conditions prevailing in Latin America, especially Mexico and Brazil, provided special challenges.

Export operating income increased somewhat compared with 1982. However, export sales were lower than the previous year because of the conversion to locally manufactured HERSHEY'S Syrup in Japan under a licensing agreement with the Company's Japanese partner, Fujiya Confectionery Co., Ltd., and the high relative value of the U.S. dollar.

HERSHEY'S HELLO'S, the international brand name for REESE'S PIECES, were introduced successfully in the first quarter of 1983 in Okinawa by Fujiya Confectionery Co., Ltd. As a result of this test market effort, a decision was made to launch this product on the Japanese mainland in the fall of 1983.

In Mexico, the Company's affiliate, Nacional de Dulces, reported improved results of operations, despite the weakened Mexican economy and high interest rates. In 1982, that company was in a start-up phase for the new plant in Guadalupe.

Two new products were added to the Nacional de Dulces line in 1983, HERSHEY'S Chocolate Covered Almonds and HERSHEY'S MINI-KISSES. Based on the improved operating performance and the long-range potential for chocolate and confectionery products in Mexico, Hershey and its partner, Anderson, Clayton & Co., S.A., agreed to an increased capital structure for Nacional de Dulces and contributed additional funds to provide for the repair and replacement of certain production equipment and for working capital.

Philippine Cocoa Corporation, the Company's Philippine affiliate, reported slightly reduced sales and earnings in 1983 compared with 1982. A new cocoa processing operation was installed in 1983,

positioning this affiliate to produce HERSHEY'S Cocoa and other quality cocoa derivative products. The Company also introduced several new lower priced, bite-sized chocolate items as well as a line of old fashioned hard candies.

For its Brazilian affiliate, Chadler Industrial da Bahia S.A., which converts cocoa beans to semiprocessed products such as chocolate liquor, cocoa butter and cocoa powder, the Company recorded a loss in 1983.

AB Marabou, the Company's affiliate in Sweden, expanded its business through its acquisition in early 1983 of Maarud, one of Norway's leading snack-food producers.

The results of Petybon's operations are discussed as part of the Other Food Products and Services segment on page 16.

EASTERN DISTRIBUTION CENTER

Hershey Chocolate Company's new Eastern Distribution Center was completed and became operational by the latter part of 1983, less than a year after groundbreaking. Located approximately 20 miles west of the Company's main manufacturing facility in Hershey, Pennsylvania, the new 435,000 square foot distribution center is operated under contract and serves to combine and store chocolate and confectionery products manufactured in the Company's various eastern plants. It supplies a national network of warehouses as well as customers within its assigned service territory.

The site for the new distribution center was chosen for its centralized location in relation to the Company's eastern manufacturing facilities, and for its prime access to major interstate highways and a railroad system. In most instances, product is moved directly from the production lines to the distribution center in specially designed trailers which permit mechanized loading and unloading. Finished goods are stored under ideal temperature and humidity condi-



Interior view of the Eastern Distribution Center.

tions to ensure that the high quality achieved during manufacturing is maintained.

The distribution center will be of substantial assistance in fulfilling Hershey's commitment to growth of both new and existing products. The facility enhances the Company's ability to efficiently distribute its growing product line, thus improving service to its customers. In addition, the transfer of shipping operations to the new facility enables the Company to convert former storage space in its manufacturing facilities to new production areas. Cost of the land, building, equipment and associated projects was approximately \$16 million.

In October 1983, the Eastern Distribution Center, the Company's Technical Center and Corporate Administrative Center, were included in sale and leaseback transactions. At all times, the Company retains control of the buildings and ownership of the land upon which these facilities are located.

AUTOMATIC DIVIDEND REINVESTMENT SERVICE

Stockholders may take advantage of an automatic dividend reinvestment service offered through Manufacturers Hanover Trust Company. Quarterly common stock dividends are automatically reinvested in Hershey common stock, and optional cash investments may be made for the purchase of additional shares.

Benefits of the service include the ability to increase holdings in Hershey common stock at no administrative cost to participants; automatic savings by payment of dividends directly to Manufacturers Hanover Trust Company; crediting of fractional shares to fully utilize the reinvested funds; dollar cost averaging; provision of personal records maintenance; and facilitation of additional voluntary cash investments of up to \$20,000 annually.

A brochure describing this service is available from the Company's Investor Relations Department in Hershey or from the Dividend Reinvestment Department of Manufacturers Hanover Trust Company, P.O. Box 24850, Church Street Station, New York, NY 10249.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting will be held at 2 p.m. on Monday, April 30, 1984 at the Hershey Theatre, East Caracas Avenue (near Cocoa Avenue), in Hershey, PA.

A formal notice of this meeting, together with a proxy statement, is being mailed to stockholders on or about March 8, 1984.

Stockholders who are unable to attend the meeting are urged to mark, sign, date and return their proxy card promptly so the stock of the Company will be represented as fully as possible at the meeting.

STOCK MARKET DATA

Hershey Foods Corporation had 16,467 stockholders of record at year-end 1983, with a total of 31,337,112 common shares outstanding. There is no other class of stock outstanding.

The common stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 5,339,000 shares of the Company's common stock were traded during 1983. The closing price of the common stock on the New York Stock Exchange on December 31, 1983 was \$31.625.

The Company's common stock price range and dividends per share by quarter for the last two years appear on page 24.

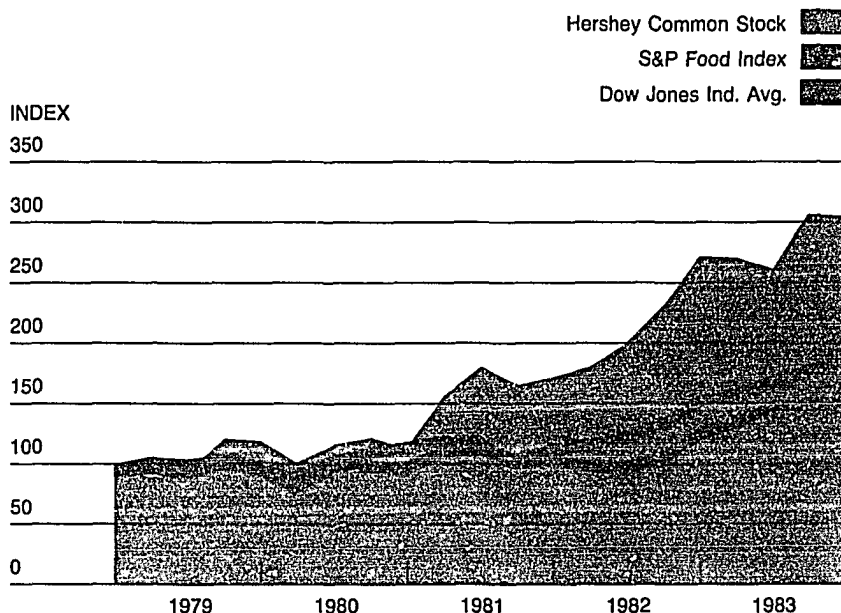
INVESTOR SERVICES

The Company has an Investor Relations function in Hershey. Requests for interim and annual reports, or for more information about the Company, should be directed to the Investor Relations Department, Corporate Administrative Center, Hershey Foods Corporation, P.O. Box 814, Hershey, PA 17033-0814.

FORM 10-K

The Annual Report to the Securities and Exchange Commission on Form 10-K is available without charge upon written request to the Office of the Secretary, Corporate Administrative Center, Hershey Foods Corporation, P.O. Box 814, Hershey, PA 17033-0814.

HERSHEY COMMON STOCK PERFORMANCE VS. SELECTED INDICES



Hershey's common stock performance in relation to selected indices, using closing prices as of December 31, 1978, as base 100.

FINANCIAL REVIEW

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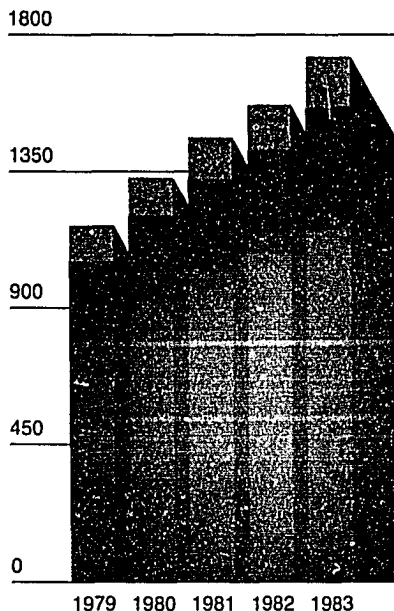
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

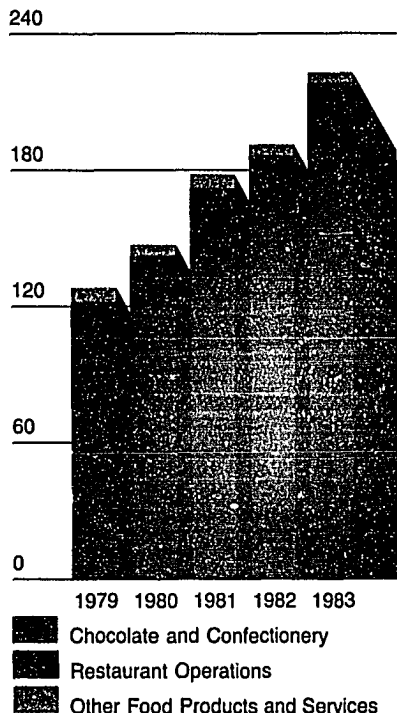
NET SALES BY INDUSTRY SEGMENT

(dollars in millions)



OPERATING INCOME BY INDUSTRY SEGMENT

(dollars in millions)



The following comments relate to the results of operations for 1983 and 1982. The explanatory information should be read in conjunction with the Six-Year Financial Summary presented on page 40. All shares and per share information have been restated for the two-for-one stock split effective September 15, 1983.

SALES AND EARNINGS

The Company experienced sales and earnings growth in 1983 and 1982. Consolidated net sales have increased during this two year period at an annual compounded growth rate of 8.4%, with higher volume accounting for the majority of the increase.

Net income has increased at an annual compounded growth rate of 11.6% during this period, principally reflecting an increased gross profit margin on higher sales levels. Gross profit margin improvements have resulted primarily from lower commodity costs and manufacturing efficiencies. The costs of major commodities have generally been lower in total during the period, compared with 1981, more than offsetting other manufacturing cost increases.

Net interest expense increased in 1983 compared with 1982 and 1981. The increase reflects higher levels of short-term borrowings for working capital and capital expenditures. Capitalized interest primarily associated with construction of a new manufacturing facility in Stuarts Draft, Virginia, resulted in lower net interest expense in 1982 compared with 1981. The effective income tax rate has declined from 48.1% in 1981 to 47.1% in 1983. Investment tax credits associated with the Stuarts Draft manufacturing facility were the major cause resulting in a 45.1% effective income tax rate for 1982.

1983

Consolidated net sales in 1983 of \$1,706.1 million increased \$140.4 million, or 9% over 1982 consolidated net sales. This increase in consolidated net sales is attributable primarily to increased unit volume, although

selected selling prices were also increased. In the Chocolate and Confectionery segment, the majority of the increase is attributable to increased unit volume associated with both existing and new products. Increased sales volume contributed most of the increase in the Restaurant Operations segment. The primary reason for the net sales increase in the Other Food Products and Services segment was the inclusion of sales of Petybon Industrias Alimenticias Ltda., for a full year in 1983 versus six months in 1982. Domestic pasta operations had increased sales volume offset slightly by lower selling prices, while reduced sales volume and selling prices were experienced by the coffee services operations.

Net income increased \$6.0 million, or 6% over 1982. Gross profit margins increased from 30.7% in 1982 to 31.5% in 1983, reflecting lower average commodity costs and manufacturing efficiencies. Gross profit margin increases were achieved in the Chocolate and Confectionery segment and the Restaurant Operations segment. The 10% increase in selling, general and administrative expenses primarily reflects higher selling and marketing expenses in response to the highly competitive markets in which the Company operates. Net interest expense increased from \$7.9 million in 1982 to \$15.8 million in 1983. This increase reflects reduced interest income, higher levels of short-term borrowings required to support working capital and capital expenditure needs, and lower capitalized interest reflecting a different mix of capital additions. The effective income tax rate increased from 45.1% in 1982 to 47.1% in 1983, resulting primarily from reduced investment tax credits in 1983 because of the completion in October 1982 of the Stuarts Draft manufacturing facility.

Net income per common share amounted to \$3.20 compared with \$3.00 in 1982, an increase of 6%. The average number of outstanding common shares was 31,337,112 in 1983 and 1982.

1982

Consolidated net sales in 1982 of \$1,565.7 million increased \$114.6 million, or 8% over 1981 consolidated net sales. This increase is attributable to increased selling prices, increased unit volume, and the inclusion of the six months of net sales of Petybon since its acquisition. In the Chocolate and Confectionery segment, the majority of the increase is attributable to increased unit selling prices associated with the increase in the weight of the Hershey Chocolate Company's standard chocolate bar product line. Increased selling prices and sales volume contributed about equally to the increase in the Restaurant Operations segment. The primary reason for the net sales increase in the Other Food Products and Services segment was the inclusion of Petybon. Reduced selling prices experienced by the coffee services and the domestic pasta operations were substantially offset by increased volume for the pasta operations.

Net income increased \$13.8 million, or 17% over 1981. Gross profit margins increased from 30.0% in 1981 to 30.7% in 1982, reflecting declining commodity costs combined with manufacturing efficiencies. Gross profit margin increases were achieved in all segments. The 13% increase in selling, general and administrative expenses primarily reflects higher selling and marketing expenses in response to the highly competitive markets in which the Company operates. Net interest expense decreased 37% in 1982 compared with 1981, reflecting reduced levels of short-term borrowings at lower interest rates, increased capitalized interest and interest income. In addition, the effective income tax rate decreased from 48.1% in 1981 to 45.1% in 1982, resulting primarily from additional investment tax credits on the Stuarts Draft manufacturing facility completed in October 1982.

Net income per common share amounted to \$3.00 compared with \$2.81 in 1981, an increase of 7%. The

average number of outstanding common shares was 31,337,112 in 1982 and 28,643,432 in 1981, restated for the two-for-one stock split effective September 15, 1983. The increase in common shares principally reflects the November 1981 stock offering in which 3,000,000 shares of the Company's common stock (restated for the two-for-one stock split in 1983) were sold to the public.

INDUSTRY SEGMENT INFORMATION

The Company operates in three industry segments: Chocolate and Confectionery, Restaurant Operations and Other Food Products and Services. The schedule on page 22 presents net sales, operating income, identifiable assets and other information for the three industry segments. Operations in the Chocolate and Confectionery segment involve manufacture and sale of a broad line of chocolate and confectionery products. The principal product groups sold are bar goods, bagged items, baking ingredients, chocolate drink mixes and dessert toppings. The Restaurant Operations segment is engaged in the operation of restaurants (667 at December 31, 1983), and the manufacture of certain items sold in those restaurants. The Other Food Products and Services segment is involved in the manufacture and sale of pasta products in the U.S. and Brazil, and biscuit and margarine products in Brazil, and the operation of a coffee service plan for U.S. and Canadian businesses and institutions.

No customer, government or other entity accounts for 10% or more of sales. Intersegment sales are not separately stated because such sales are not significant. Foreign sales and assets account for less than 10% of total sales and assets.

Identifiable assets are those assets that are used in the Company's operations in each segment. Corporate

assets are principally cash, short-term investments, and corporate property and equipment.

CHOCOLATE AND CONFECTIONERY

The Chocolate and Confectionery segment was the largest contributor to consolidated net sales growth during 1983 and 1982. In 1983, the segment had an increase of \$77.5 million, or 7% over 1982 segment sales. This followed an increase of \$66.5 million, or 7% in 1982 compared with 1981. The 1983 increase was attributable to both increased unit volume and selling prices, with increased unit volume accounting for the majority of the increase, whereas increased selling prices contributed the majority of the 1982 increase.

Operating income in 1983 increased \$24.4 million, or 16% compared with 1982. Improved operating margins were primarily the result of lower average commodity costs, particularly cocoa beans and sugar. Commodity price increases near the end of the year, together with manufacturing and other cost increases, necessitated an increase in the selling price of the standard chocolate bar line. Effective December 19, 1983, the selling price of Hershey Chocolate Company's standard chocolate bar product line was increased an average of 16.7%. As a result, the consumer price is expected to increase from 30¢ to 35¢ in most retail outlets. Net sales in the fourth quarter 1983 were favorably impacted by customer orders at prices in effect prior to December 19. Selling and marketing expenses increased primarily as a result of increased advertising and trade promotions.

In 1982, operating income increased \$12.1 million, or 9% compared with 1981. Operating income margins improved as lower commodity costs and manufacturing efficiencies more than offset higher costs of labor and packaging material, and a negative impact of the price and

weight change in 1982 resulted in a lower price per ounce of the standard chocolate bar product line. Selling and marketing expenses increased because of expanded advertising and promotion programs.

RESTAURANT OPERATIONS

Net sales for the Restaurant Operations segment increased \$47.7 mil-

lion, or 14% in 1983 compared with 1982. This followed an increase of \$32.9 million, or 11% in 1982 compared with 1981. Sales growth in 1983 was attributable primarily to increased unit volume, while in 1982 sales growth related equally to increased volume and selling prices. New restaurant openings, greater volume in existing restaurants (due in

part to favorable weather conditions) and sales of new products, all contributed to real sales growth in 1983 and 1982.

In 1983, operating income increased \$5.1 million, or 15% compared with 1982. During 1982, operating income increased \$5.0 million, or 17% compared with 1981. The increase in operating margins in both

For the years ended December 31,

(in thousands of dollars)

	1983	1982	1981
Net sales:			
Chocolate and Confectionery	\$1,159,065	\$1,081,558	\$1,015,106
Restaurant Operations	383,543	335,836	302,908
Other Food Products and Services	163,497	148,342	133,137
Total net sales	<u>\$1,706,105</u>	<u>\$1,565,736</u>	<u>\$1,451,151</u>
Operating income:			
Chocolate and Confectionery	\$ 179,253	\$ 154,805	\$ 142,658
Restaurant Operations	39,428	34,279	29,309
Other Food Products and Services	4,692	4,947	7,250
Total operating income	223,373	194,031	179,217
General corporate expenses	(18,208)	(14,629)	(11,763)
Interest expense, net	(15,814)	(7,859)	(12,512)
Income before taxes	189,351	171,543	154,942
Less: income taxes	89,185	77,375	74,580
Net income	<u>\$ 100,166</u>	<u>\$ 94,168</u>	<u>\$ 80,362</u>
Identifiable assets:			
Chocolate and Confectionery	\$ 552,422	\$ 528,194	\$ 445,815
Restaurant Operations	251,781	234,860	223,265
Other Food Products and Services	84,964	83,345	63,446
Corporate	94,777	58,355	96,921
Total identifiable assets	<u>\$ 983,944</u>	<u>\$ 904,754</u>	<u>\$ 829,447</u>
Depreciation:			
Chocolate and Confectionery	\$ 14,393	\$ 10,225	\$ 9,554
Restaurant Operations	17,066	15,574	14,379
Other Food Products and Services	4,597	3,670	2,675
Corporate	1,218	1,212	957
Total depreciation	<u>\$ 37,274</u>	<u>\$ 30,681</u>	<u>\$ 27,565</u>
Capital additions:			
Chocolate and Confectionery	\$ 51,779*	\$ 77,074	\$ 57,504
Restaurant Operations	35,751	28,005	22,098
Other Food Products and Services	7,462	7,022	5,525
Corporate	10,252	4,635	6,546
Total capital additions	<u>\$ 105,244</u>	<u>\$ 116,736</u>	<u>\$ 91,673</u>

*Includes approximately \$11 million for the construction of the Eastern Distribution Center, subsequently included in a sale and leaseback transaction.

1983 and 1982 reflects the increased sales volume and prices, together with productivity improvements and lower costs of major commodities. These were offset partially by increases in other food and restaurant supply costs, labor, restaurant operating costs and selling and marketing expenses. The increases in selling and marketing reflect more extensive use of television advertising and coupon promotions.

OTHER FOOD PRODUCTS AND SERVICES

Net sales for the Other Food Products and Services segment in 1983 increased \$15.1 million, or 10% compared with 1982. The sales increase relates to Petybon and domestic pasta operations. In mid-1982, the Company purchased the remaining interest in Petybon, which was previously a 40% owned joint venture in Brazil. Sales volume increased for the domestic pasta operations, but was slightly offset by decreases in selling prices as lower commodity costs were passed on to the consumer. The coffee services operations experienced slight decreases in unit volumes and selling prices.

Net sales for the Other Food Products and Services segment in 1982 increased \$15.2 million, or 11% compared with 1981, primarily because of the consolidation of six months of Petybon's operating results.

Operating income in 1983 decreased slightly compared with 1982. Increases in operating income from the domestic pasta operations and Petybon partially offset lower operating results from the coffee services operations. The operating income margin decrease was primarily due to lower sales volume and lower selling prices in the coffee services operations.

Operating income in 1982 decreased \$2.3 million, or 32% compared with 1981, primarily due to reduced sales volume and lower selling prices which resulted in lower operating margins within the coffee services operations. Also contributing to the decline was the inclusion of the addi-

tional 60% of Petybon operations and the foreign currency translation losses associated with the relative weakening of the Brazilian cruzeiro versus the U.S. dollar during 1982. Operating income margins within the domestic pasta operations increased over 1981 reflecting reduced commodity costs and manufacturing efficiencies. This increase was partially offset by increased advertising and a higher level of promotions in 1982.

GENERAL CORPORATE EXPENSES

General Corporate Expenses have increased by 24% in 1983 compared with 1982, and by approximately the same percentage in 1982 compared with 1981. These increases reflect expenditures for consulting services and facility expenses as well as other administrative costs.

LIQUIDITY

Generally, the Company's major source of financing has been cash generated from normal business operations. However, at certain times during the year the Company has seasonal working capital needs which exceed funds generated from normal operations and, therefore, interim financing is required. These needs are met by issuing commercial paper and/or borrowing from commercial banks. Typically, the Company's seasonal needs for working capital peak during the summer months and domestic short-term borrowings are generally repaid in the fall.

During 1983, the Company's cash and short-term investments increased \$38.6 million. Sources of these funds included operations (\$174.4 million) and sale and leaseback transactions, net (\$25.5 million). The funds were used for capital additions (\$105.2 million), dividends (\$34.5 million) and repayments of debt (\$25.9 million). In October 1983, the Company concluded sale and leaseback transactions covering the Technical Center, Corporate Admin-

istrative Center, and newly constructed Eastern Distribution Center. In 1983, as well as 1982 and 1981, the Company borrowed on a short-term basis to fund seasonal working capital requirements. The Company repurchased \$11 million and \$4.5 million of its sinking fund debentures in 1983 and 1982, respectively, to meet future sinking fund requirements. In November 1981, the Company received \$53 million from the issuance of 3,000,000 shares of common stock in a public offering.

The ratio of current assets to current liabilities was 2.2:1 at December 31, 1983, 2.0:1 in 1982 and 2.3:1 in 1981. The 1982 and 1981 ratios have been restated to reflect certain reclassifications. The 1981 year-end current assets included the proceeds from the November 1981 stock offering. The Company's inventories generally have increased in proportion to sales growth. Inventories increased by \$16.1 million in 1983 and \$26.7 million in 1982, representing additional requirements necessary for anticipated sales growth and commodity procurement activities.

At December 31, 1983, the Company had \$1.4 million of outstanding short-term debt, \$4.6 million current portion of long-term debt and \$73.1 million of cash and short-term investments. Bank lines of credit which may be borrowed directly or used to support the issuance of commercial paper were \$100 million. Outstanding short-term debt related to operations in Brazil and Canada.

CAPITAL RESOURCES

Although the Company has generally met its capital expenditure requirements from internally generated funds, from time to time, it has supplemented these sources by using various long-term financing arrangements. In December 1982, \$1.0 million of 10.4% Industrial Revenue Bonds due 2002 and \$2.1 million of 10.625% Pollution Control Revenue Bonds due 2012 were issued to finance certain pollution control and operating equipment for the Stuarts Draft manufacturing facility.

The 1983 sale and leaseback transactions generated proceeds of \$32.5 million which were used to reduce short-term debt.

At December 31, 1983, the Company's principal capital commitments included the installation of manufacturing equipment for existing and new products and the construction and acquisition of Friendly restaurants.

The Company's long-term debt as a percentage of stockholders' equity was 21% in 1983, 26% in 1982 and 34% in 1981. The decrease in 1983 resulted primarily from the repurchase of \$11 million of sinking fund debentures. The decrease in 1982 resulted, in part, from the reclassification of the \$15 million promissory notes, subsequently paid in June 1983, to current portion of long-term debt combined with the increase in retained earnings.

IMPACT OF INFLATION

Inflation in recent years has impacted the historical dollar financial statements of many companies. Methods

have been adopted by the Financial Accounting Standards Board to measure the impact of increasing costs and the changes in the purchasing power of the dollar. The impact of inflation on the Company is presented on pages 37 through 39. While these methods are experimental in nature, in general they provide a reasonable indication of the impact of inflation on reported results.

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Company's common stock were \$34.5 million in 1983 and \$31.3 million in 1982. The annual dividend rate was increased 9.5% in 1983 to \$1.15 per share from \$1.05 per share in 1982. This represents the ninth consecutive year of dividend increases for the stockholders. On February 14, 1984, the Company declared a regular quarterly dividend of \$.2875 per share of common stock payable on March 15, 1984, to stockholders of record February 24, 1984. It is the

Company's 217th consecutive regular dividend.

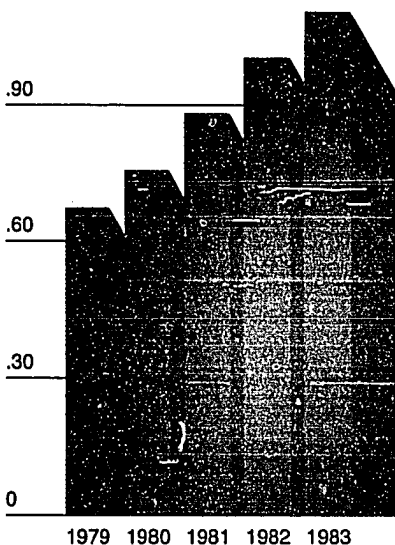
Hershey Foods Corporation common stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 5.3 million shares of the Company's common stock were traded during 1983. The closing price of the common stock on the New York Stock Exchange on December 31, 1983, was \$31.625. The number of stockholders of record at December 31, 1983, was 16,467.

The following table shows the dividends paid per common share and the price range of the common stock for each quarter of the past two years. The amounts have been restated to reflect the two-for-one stock split effective September 15, 1983.

DIVIDENDS PAID PER COMMON SHARE

(dollars)

1.20



	Dividends Paid Per Common Share	Common Stock Price Range*	
		High	Low
COMMON STOCK			
1983 First Quarter	\$.2625	\$29 ¹ / ₈	\$24 ³ / ₈
Second Quarter .....	.2625	31 ¹ / ₂	25 ⁷ / ₈
Third Quarter .....	.2875	32 ³ / ₄	26 ¹ / ₈
Fourth Quarter .....	.2875	35	30 ³ / ₄
	<u>\$1.10</u>		
1982 First Quarter	\$.2375	\$19 ¹ / ₈	\$16 ¹ / ₄
Second Quarter .....	.2375	21 ¹ / ₂	18 ⁷ / ₈
Third Quarter .....	.2625	24 ¹ / ₂	19 ³ / ₄
Fourth Quarter .....	.2625	29 ³ / ₄	23 ³ / ₈
	<u>\$1.00</u>		

*NYSE-Composite Quotations

OTHER FINANCIAL INFORMATION

CAPITAL ADDITIONS

Capital additions, including capitalized interest and capitalized leases, in 1983 were \$105.2 million compared with \$116.7 million in 1982 and \$91.7 million in 1981. Capital additions amounted to \$429.1 million during the past five years.

Chocolate and Confectionery segment additions accounted for \$51.8 million or 49% of the 1983 total spending compared with \$77.1 million or 66% in 1982. In 1983, the major addition was construction of the Eastern Distribution Center, which was included in the October 1983 sale and leaseback transactions. In 1982, the new manufacturing facility in Stuarts Draft, Virginia, was completed. Other additions included installation of production equipment for new and existing products.

The Restaurant Operations segment accounted for \$35.7 million or 34% of the 1983 total spending compared with \$28.0 million or 24% in 1982. Approximately 63% of the spending was for restaurants opened at 32 new locations during 1983 and

new restaurant locations scheduled to open subsequent to 1983. Other additions included the renovation and modification of existing restaurants and other improvements.

The Other Food Products and Services segment accounted for \$7.5 million or 7% of the 1983 total spending compared with \$7.0 million or 6% in 1982. Additions during 1983 included the installation of pasta manufacturing lines and the purchase of coffee brewers.

Corporate additions were \$10.2 million or 10% of 1983 total spending compared with \$4.6 million or 4% of the 1982 total spending. In 1983, additions included the replacement and upgrading of Corporate aircraft and other equipment.

Depreciation expense and amortization of leasehold improvements and capitalized leases for 1983 through 1981 amounted to \$37.3 million, \$30.7 million and \$27.6 million, respectively.

RETURN ON STOCKHOLDERS' EQUITY

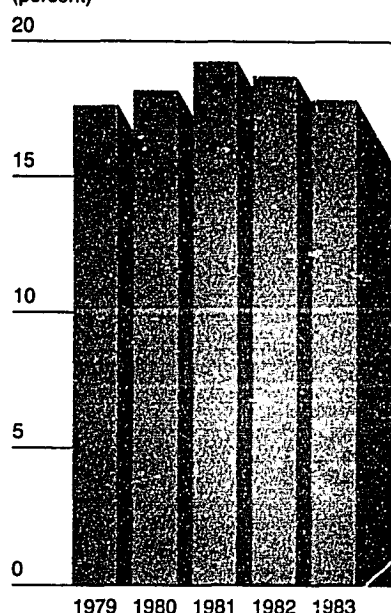
The Company has increased consolidated net sales, net income and assets over the most recent five-year period and has maintained its return on average stockholders' equity in the range of 17.7% to 19.3% and was 17.8% in 1983. The return since 1981 incorporates the effect of \$53 million of additional stockholders' equity resulting from the issuance of 3,000,000 shares of common stock (restated for the two-for-one stock split in 1983) in late 1981.

RETURN ON INVESTED CAPITAL

The Company's after-tax return on average invested capital over the most recent five-year period has been maintained in the range of 12.8% to 14.3% and was 13.8% in 1983. Average invested capital consists of the average of beginning and end-of-year balances in long-term debt, deferred income taxes and stockholders' equity. Earnings on invested capital is the sum of net income and the after-tax effect of interest on long-term debt.

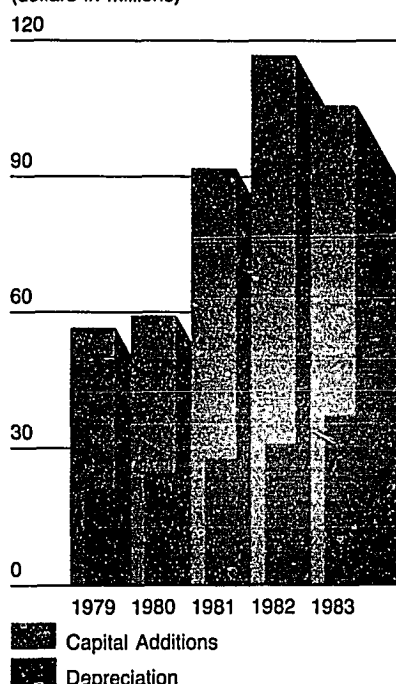
RETURN ON AVERAGE STOCKHOLDERS' EQUITY

(percent)



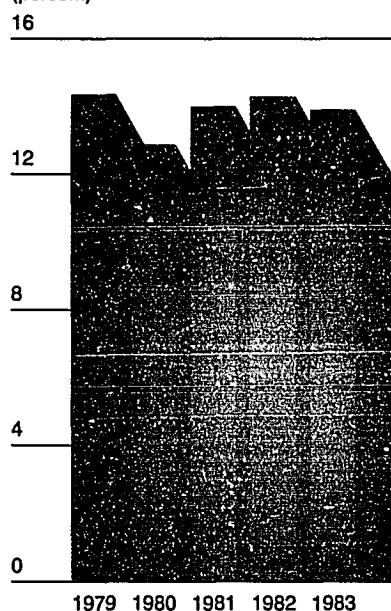
CAPITAL ADDITIONS AND DEPRECIATION

(dollars in millions)



AFTER-TAX RETURN ON AVERAGE INVESTED CAPITAL

(percent)



CONSOLIDATED STATEMENTS OF INCOME

(In thousands of dollars except per share amounts)

For the years ended December 31,	1983	1982	1981
Net Sales	<u>\$1,706,105</u>	<u>\$1,565,736</u>	<u>\$1,451,151</u>
Costs and Expenses:			
Cost of sales	<u>1,168,109</u>	1,084,748	1,015,767
Selling, general and administrative	<u>332,831</u>	<u>301,586</u>	<u>267,930</u>
Total costs and expenses	<u>1,500,940</u>	<u>1,386,334</u>	<u>1,283,697</u>
Income from Operations	<u>205,165</u>	179,402	167,454
Interest expense, net (Note 1)	<u>15,814</u>	<u>7,859</u>	<u>12,512</u>
Income before Taxes	<u>189,351</u>	171,543	154,942
Provision for income taxes (Note 2)	<u>89,185</u>	<u>77,375</u>	<u>74,580</u>
Net Income	<u>\$ 100,166</u>	<u>\$ 94,168</u>	<u>\$ 80,362</u>
Net Income per Common Share (Note 1)	<u>\$ 3.20</u>	<u>\$ 3.00</u>	<u>\$ 2.81</u>

Cash Dividends per Common Share (Note 1)	\$ 1.10	\$ 1.00	\$.875
Income from Operations as a Percentage of Net Sales	12.0%	11.5%	11.5%
Net Income as a Percentage of Net Sales	5.9%	6.0%	5.5%

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

For the years ended December 31,	1983	1982	1981
Cash Provided from (Used by) Operations			
Net income	\$ 100,166	\$ 94,168	\$ 80,362
Depreciation and amortization	39,099	32,378	29,168
Deferred income taxes	12,150	12,067	9,195
Working capital provided from operations	151,415	138,613	118,725
Change in components of operating working capital (except cash and short-term investments):			
Inventories	(16,081)	(26,695)	(38,189)
Accounts receivable	8,673	(8,888)	(10,277)
Accounts payable	5,136	(8,761)	(4,413)
Other	12,232	17,780	(8,574)
Other long-term liabilities	13,017	3,483	5,867
Cash Provided from Operations	174,392	115,532	63,139
Cash (Used for) Dividends	(34,470)	(31,337)	(25,504)
Cash Provided from (Used for) Investment Activities			
Capital additions	(105,244)	(116,736)	(91,673)
Sale and leaseback transactions, net of deferred gain	25,480	—	—
Investment in Petybon Industrias Alimenticias Ltda., net of working capital acquired of \$2,583	—	(10,417)	—
Disposals of property, plant and equipment and other	4,298	1,419	6,102
Cash (Used for) Investment Activities	(75,466)	(125,734)	(85,571)
Cash Provided from (Used for) Financing Activities			
Issuance of common stock	—	—	52,953
Issuance of long-term debt	—	3,100	—
Reduction in long-term debt, including current portion	(25,868)	(3,584)	(44)
Cash Provided from (Used for) Financing Activities	(25,868)	(484)	52,909
Increase (Decrease) in Cash and Short-Term Investments	38,588	(42,023)	4,973
Cash and Short-Term Investments at January 1	34,503	76,526	71,553
Cash and Short-Term Investments at December 31	\$ 73,091	\$ 34,503	\$ 76,526

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

December 31, 1983 1982

ASSETS

Current Assets:

Cash and short-term investments (Note 3)	\$ 73,091	\$ 34,503
Accounts receivable—trade (less allowances for doubtful accounts of \$2,960 and \$3,040)	56,456	65,129
Inventories (Note 1)	194,666	178,585
Other current assets	12,392	13,411
Total current assets	<u>336,605</u>	<u>291,628</u>

Property, Plant and Equipment, at cost: (Note 1)

Land	53,829	51,050
Buildings	179,047	183,387
Machinery and equipment	538,512	474,918
Capitalized leases	23,279	19,920
	794,667	729,275
Less—accumulated depreciation and amortization	219,546	189,361
	<u>575,121</u>	<u>539,914</u>

Excess of Cost Over Net Assets of

Businesses Acquired (Note 1)	51,307	52,609
------------------------------------	---------------	--------

Investments and Other Assets	20,911	20,603
	<u>\$983,944</u>	<u>\$904,754</u>

LIABILITIES AND STOCKHOLDERS' EQUITY**Current Liabilities:**

Accounts payable (Note 3)	<u>\$ 67,107</u>	<u>\$ 61,971</u>
Accrued liabilities		
Payroll and other compensation costs	<u>27,222</u>	24,103
Advertising and promotional expenses	<u>13,774</u>	12,805
Other	<u>27,273</u>	19,036
	<u>68,269</u>	55,944
Accrued income taxes	<u>10,287</u>	11,399
Short-term debt and current portion of long-term debt (Note 4)	<u>5,971</u>	19,579
Total current liabilities	<u>151,634</u>	148,893

Long-Term Debt (Notes 4 and 5) 127,990 140,250

Other Long-Term Liabilities (Note 1) 22,367 9,350

Deferred Income Taxes (Note 2) 85,916 73,766

Stockholders' Equity: (Note 1)

Common stock without par value (stated value \$1 per share)— authorized 50,000,000 shares in 1983 and 20,000,000 shares in 1982; outstanding 31,337,112 shares in 1983 and 15,668,556 shares on a pre-split basis in 1982	<u>31,337</u>	15,669
Additional paid-in capital	<u>54,006</u>	54,006
Cumulative foreign currency translation adjustments	<u>(2,154)</u>	—
Retained earnings	<u>512,848</u>	462,820
Total stockholders' equity	<u>596,037</u>	532,495
	<u>\$983,944</u>	<u>\$904,754</u>

The accompanying notes are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands of dollars except share amounts)

	Outstanding Shares	Common Stock	Additional Paid-In Capital	Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Total Stockholders' Equity
Balance at January 1, 1981	14,159,854	\$14,160	\$ 2,259	\$ —	\$345,131	\$361,550
Issuance of common stock	1,500,000	1,500	51,453			52,953
Management incentive plan awards	8,702	9	294			303
Net income					80,362	80,362
Dividends					(25,504)	(25,504)
Balance at December 31, 1981	15,668,556	15,669	54,006	—	399,989	469,664
Net income					94,168	94,168
Dividends					(31,337)	(31,337)
Balance at December 31, 1982	15,668,556	15,669	54,006	—	462,820	532,495
Effect of initial adoption of SFAS-52 (Note 1)				(1,542)		(1,542)
Net income					100,166	100,166
Dividends					(34,470)	(34,470)
Stock split (Note 1)	15,668,556	15,668			(15,668)	—
Foreign currency translation adjustments (Note 1)				(612)		(612)
Balance at December 31, 1983	<u>31,337,112</u>	<u>\$31,337</u>	<u>\$54,006</u>	<u>\$(2,154)</u>	<u>\$512,848</u>	<u>\$596,037</u>

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies employed by the Company are discussed below and in Notes 2 and 6 which describe the accounting policies relating to income taxes and retirement plans, respectively. Certain reclassifications have been made to the December 31, 1982, and 1981 consolidated financial statements to conform to the 1983 presentation.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions.

FOREIGN CURRENCY TRANSLATION

Effective January 1, 1983, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," which changed the method of accounting for the translation of foreign financial statements. Under SFAS 52, assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates during the period. Resulting translation adjustments are recorded in a separate component of stockholders' equity entitled "Cumulative Foreign Currency Translation Adjustments." These changes apply to all foreign entities except those in highly inflationary economies, for which non-monetary assets and liabilities are translated at historical exchange rates and related translation gains and losses are included in results of operations. Had this Statement been adopted in earlier years, the effect on the financial statements would not have been material.

INVENTORIES

Substantially all of the Chocolate and Confectionery segment inventories are valued under the "last-in, first-out" (LIFO) method. The majority of the remaining inventories are stated at the lower of "first-in, first-out" (FIFO) cost or market. LIFO inventories amounted to \$141,435,000 in 1983 and \$109,725,000 in 1982. The components of year-end inventories are presented below.

December 31,	1983	1982
(in thousands of dollars)		
Raw materials	\$137,921	\$112,068
Goods in process	24,553	28,912
Finished goods	97,068	113,067
Inventories at FIFO	259,542	254,047
Adjustment to LIFO method	(64,876)	(75,462)
Total inventories	<u>\$194,666</u>	<u>\$178,585</u>

PROPERTY, PLANT AND EQUIPMENT

The Company applies straight-line depreciation to buildings and machinery and equipment. Property, plant and equipment balances include construction in progress in the amount of \$17,827,000 at December 31, 1983, and \$22,717,000 at December 31, 1982. Certain leases are capitalized at the present value of future minimum lease payments and are amortized using the straight-line method over the related lease terms.

EXCESS OF COST OVER NET ASSETS OF BUSINESSES ACQUIRED

Substantially all of the excess of the acquisition cost over the fair value of the net assets of businesses acquired is being amortized on a straight-line basis over a period of forty years.

ACQUISITION

During 1982, the Company purchased, for \$13,000,000, the remaining interest in a 40% owned venture in Brazil, Petybon Industrias Alimenticias Ltda. Accordingly, Petybon's results of operations, which had previously been reported under the equity method, have been consolidated subsequent to the mid-1982 acquisition. Had the results of Petybon been included with consolidated results for the entire years of 1982 and 1981, the effect would not have been material.

DEVELOPMENT AND PROMOTION EXPENSES

The costs of research and development (\$5,936,000 in 1983, \$5,885,000 in 1982 and \$5,352,000 in 1981) and advertising and promotion (\$150,421,000 in 1983, \$137,310,000 in 1982 and \$123,244,000 in 1981) are expensed in the year incurred.

NET INCOME PER COMMON SHARE

Net income and dividends per common share have been computed based on the weighted average number of shares of common stock outstanding during the year as restated for the two-for-one stock split effective September 15, 1983 (31,337,112 in 1983 and 1982 and 28,643,432 in 1981).

INTEREST EXPENSE

Interest expense, net consists of the following:

	1983	1982	1981
(in thousands of dollars)			
Long-term debt	\$12,029	\$13,212	\$13,163
Capitalized leases	1,976	1,715	1,644
Short-term obligations	5,863	2,548	3,700
Capitalized interest	(3,102)	(6,034)	(3,216)
	16,766	11,441	15,291
Interest income	(952)	(3,582)	(2,779)
	<u>\$15,814</u>	<u>\$ 7,859</u>	<u>\$12,512</u>

OTHER LONG-TERM LIABILITIES

Other long-term liabilities primarily consist of insurance liabilities, deferred gains associated with sale and leaseback transactions, and amounts payable under deferred compensation arrangements.

COMMON STOCK

All share and per share data, except where noted, have been restated for the two-for-one stock split effective September 15, 1983.

Hershey Trust Company, Trustee for Milton Hershey School; and Milton Hershey School, owned 50.1% of the Company's common stock at December 31, 1983.

2. INCOME TAXES

The provision for Federal and state income taxes is based on income as reported in the financial statements. The provision has been reduced by allowable investment and other tax credits.

Deferred income taxes are provided to reflect timing differences in reporting results of operations for financial statement and income tax purposes. Timing differences result primarily from the use of accelerated depreciation for income tax purposes, and beginning in 1983, the income tax effect of deferred gains on the sale and leaseback transactions. Such gains are taxable in 1983 but are amortized over the lease terms for financial statement purposes. The provision for income taxes is as follows:

	1983	1982	1981
(in thousands of dollars)			
Paid and currently payable	\$77,035	\$65,308	\$65,385
Deferred	12,150	12,067	9,195
Provision for income taxes	<u>\$89,185</u>	<u>\$77,375</u>	<u>\$74,580</u>

The following table reconciles the provision for income taxes with the amount computed by applying the Federal statutory rate.

	1983		1982		1981	
	Amount	%	Amount	%	Amount	%
(in thousands of dollars)						
Taxes computed at statutory rate	\$87,102	46.0	\$78,910	46.0	\$71,273	46.0
Increase (reduction) resulting from:						
State income taxes, net of Federal income tax benefits	9,337	4.9	7,789	4.5	6,801	4.4
Investment and other tax credits	(7,633)	(4.0)	(10,354)	(6.0)	(5,959)	(3.8)
Nondeductible expenses relating to acquisitions	2,206	1.1	2,403	1.4	2,554	1.6
Other, net	(1,827)	(.9)	(1,373)	(.8)	(89)	(.1)
Provision for income taxes	<u>\$89,185</u>	<u>47.1</u>	<u>\$77,375</u>	<u>45.1</u>	<u>\$74,580</u>	<u>48.1</u>

3. SHORT-TERM DEBT

Because of seasonal working capital requirements, the Company maintained lines of credit arrangements with commercial banks, under which it could borrow up to \$125 million in 1983 and \$100 million in 1982 at the lending banks' prime commercial interest rate or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the banks or the Company. There were approximately \$100,000 of borrowings under these lines of credit at December 31, 1983, and none at December 31, 1982.

The average daily outstanding short-term debt under both lines of credit and commercial paper during 1983 and 1982 was \$50,814,000 and \$16,526,000, respectively, with a weighted average daily interest rate of 11.2% and 14.0%, respectively. The average interest rate for 1983 includes foreign borrowings in Brazil and Canada. The weighted average interest rate for domestic short-term borrowings was 9.4% in 1983 and 14.0% in 1982. The maximum amount of short-term borrowings by the Company at any month-end was \$107,542,000 in 1983 and \$55,445,000 in 1982. As a result of maintaining a consolidated cash management system, the Company maintains overdraft positions at certain banks. Such overdrafts, which are included in accounts payable, were \$15,654,000, \$16,683,000 and \$22,647,000 at December 31, 1983, 1982 and 1981, respectively.

Lines of credit are supported by commitment fee and/or compensating balance arrangements. The fees range up to ½% per annum of the commitment. While there are no compensating balance agreements which legally restrict these funds, the Company generally maintains balances of up to 5% of borrowings under these lines of credit and generally not less than 2.5% of commitments.

4. LONG-TERM DEBT

Long-term debt and capitalized lease obligations at December 31, 1983 and 1982 consisted of the following:

	1983	1982
(in thousands of dollars)		
10.75% Promissory Notes due 1983	\$ —	\$ 15,000
8.7% Senior Notes due 1992	18,000	20,000
7.25% Sinking Fund Debentures due 1997	21,000	22,500
Debentures repurchased	(3,050)	(4,550)
6.875% Industrial Revenue Bonds due 2000-2005	4,000	4,000
10.4% Industrial Revenue Bonds due 2002	1,000	1,000
9.5% Sinking Fund Debentures due 2009	75,000	75,000
Debentures repurchased	(11,000)	—
10.625% Pollution Control Revenue Bonds due 2012	2,100	2,100
Other obligations	4,545	6,007
Capitalized lease obligations	20,960	18,772
	132,555	159,829
Less: Current portion of long-term debt and capitalized lease obligations	4,565	19,579
Total long-term debt	\$127,990	\$140,250

Capitalized leases relate primarily to certain restaurant facilities leased by the Restaurant Operations segment.

In June 1983, the Company repaid \$15,000,000 of 10.75% Promissory Notes which had been reclassified as current during 1982. Also in 1983, the Company began annual payments of \$2,000,000 on the 8.7% Senior Notes due 1992. In December 1983, the Company repurchased \$11,000,000 of its 9.5% Sinking Fund Debentures to be used to meet minimum annual sinking fund payments of \$3,000,000 which will begin in 1985.

In 1982, the Company repurchased \$4,955,000 of its 7.25% Sinking Fund Debentures to be used to meet minimum annual sinking fund payments of \$1,500,000. The Company used \$1,500,000 and \$405,000 of these repurchased debentures to meet payments in 1983 and 1982, respectively.

The aggregate annual payments of long-term debt, net of repurchased debentures and exclusive of capitalized lease obligations, are as follows: 1984, \$3,075,000; 1985, \$2,390,000; 1986, \$3,763,000; 1987, \$3,835,000; 1988, \$4,858,000.

5. LEASE COMMITMENTS

Total rent expense for all operating leases, which pertain principally to certain administrative buildings, distribution facilities, restaurants and transportation equipment, was \$17,945,000 in 1983, \$15,033,000 in 1982 and \$12,051,000 in 1981.

In October 1983, the Company concluded sale and leaseback transactions covering the Technical Center, Corporate Administrative Center, and newly constructed Eastern Distribution Center. The leases for the buildings are operating leases and are included as such in the following table. Future minimum lease payments under noncancelable leases with an original term in excess of one year as of December 31, 1983 are as follows:

	Capital Leases	Operating Leases
(in thousands of dollars)		
1984	\$ 3,768	\$ 7,591
1985	3,688	6,441
1986	3,284	5,345
1987	3,122	4,536
1988	2,989	4,133
1989 and beyond	21,960	159,920
Total minimum lease payments	\$38,811	\$187,966

The total minimum lease payments under capital leases include \$17,851,000 of imputed interest.

6. RETIREMENT PLANS

The Company and its subsidiaries have several non-contributory retirement plans covering substantially all salaried and full-time hourly employees. Costs are computed and funded on the basis of accepted actuarial methods and include current service costs and past service costs which are amortized principally over 15 years.

The total pension expense was \$12,220,000 in 1983, \$12,927,000 in 1982 and \$13,200,000 in 1981. The pension expense during this three year period includes the impact of favorable investment return performance.

A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plans as of the date of the most recent actuarial valuation is as follows:

January 1,	1983	1982
(in thousands of dollars)		
Actuarial present value of accumulated plan benefits:		
Vested	\$119,302	\$110,868
Non-vested	8,383	8,181
	<u>\$127,685</u>	<u>\$119,049</u>
Market value of net assets available for benefits	<u>\$133,423</u>	<u>\$103,708</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 8%.

7. SUMMARY OF QUARTERLY DATA (Unaudited)

The following table presents net sales, gross profit, net income and net income per common share for each quarter of the past two years. Net income per common share has been restated for the two-for-one stock split effective September 15, 1983.

(in thousands of dollars except per share amounts)

Year 1983	First	Second	Third	Fourth	Year
Net sales	\$421,916	\$357,280	\$462,745	\$464,164	\$1,706,105
Gross profit	130,633	111,730	147,849	147,784	537,996
Net income	<u>\$ 23,814</u>	<u>\$ 16,536</u>	<u>\$ 29,550</u>	<u>\$ 30,266</u>	<u>\$ 100,166</u>
Net income per common share	<u>\$.76</u>	<u>\$.53</u>	<u>\$.94</u>	<u>\$.97</u>	<u>\$ 3.20</u>
Year 1982	First	Second	Third	Fourth	Year
Net sales	\$390,447	\$314,364	\$443,018	\$417,907	\$1,565,736
Gross profit	124,861	97,006	135,525	123,596	480,988
Net income	<u>\$ 26,685</u>	<u>\$ 16,036</u>	<u>\$ 27,820</u>	<u>\$ 23,627</u>	<u>\$ 94,168</u>
Net income per common share	<u>\$.85</u>	<u>\$.51</u>	<u>\$.89</u>	<u>\$.75</u>	<u>\$ 3.00</u>

8. INDUSTRY SEGMENT AND EFFECTS OF INFLATION

Industry segment information and unaudited information regarding the effects of inflation are shown on pages 21 through 23 and 37 through 39, respectively, of this report.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Company believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Company believes its system provides an appropriate balance in this regard. The Company maintains an Internal Auditing Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been examined by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 25, 1983. Their report expresses an opinion that the Company's financial statements are fairly stated in conformity with generally accepted accounting principles. Their examination was performed in accordance with generally accepted auditing standards and, accordingly, included reviewing the internal accounting controls and conducting other auditing procedures they deemed necessary.

The Audit Committee of the Board of Directors of the Company, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors, and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

AUDITORS' REPORT

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have examined the consolidated balance sheets of Hershey Foods Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1983, and 1982, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1983, and 1982, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.



New York, N.Y.
February 10, 1984

SUPPLEMENTARY INFORMATION REGARDING THE EFFECTS OF INFLATION (Unaudited)

The Company's consolidated financial statements are prepared based upon historical costs and prices of transactions. The following supplementary information reflects certain effects of inflation upon the Company's operations in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," issued by the Financial Accounting Standards Board.

The effects of inflation on income have been measured in two ways as described below and presented in the following statements. The first method, "constant dollar," measures the effect of general inflation determined by using the 1983 average Consumer Price Index for all Urban Consumers (CPI-U) to recompute results of operations. The second method, "current cost," is more specific to the Company in that it measures inflation by recomputing results of operations using the current cost of inventory and property, plant and equipment rather than the historical cost of such assets. Current costs of property, plant and equipment were developed from external price indices, quotations or similar measurements. The impact of inflation on translated foreign operations is measured utilizing the CPI-U.

The inflation-adjusted information presented may not necessarily be comparable with other companies within the same industry because of differences in assumptions and judgments. However, of the two methods required, the Company believes the current cost method is more meaningful because it better measures the effects of inflation on Company operations.

During 1983, specific costs of inventories and property, plant and equipment increased by \$31.5 million in excess of general price level increases. This specific cost increase related primarily to cocoa beans and other inventory costs. The increase in cocoa bean costs was a major consideration in implementing an increase in the selling price of the Hershey Chocolate Company's standard chocolate bar product line in December 1983.

Depreciation expense increased under both methods because of inflation.

Current cost depreciation exceeds constant dollar depreciation because the cumulative increases in the Company's specific cost of property, plant and equipment have exceeded the general inflation rate. Both amounts are based on costs of property, plant and equipment currently used in operations. However, the Company generally takes advantage of the latest technological improvements when actual replacement occurs.

The constant dollar cost of sales reflects the 3.2% increase in the average consumer price index during 1983 for those inventories not on LIFO. Neither the constant dollar nor the current cost adjustments are significant because substantial portions of inventories in the historical financial statements are stated at LIFO cost. Under LIFO, cost of sales in the historical financial statements approximates current costs.

The statement shows that the historical effective income tax rate for 1983 of 47.1% increases under both methods since Federal income tax regulations do not provide for a tax deduction for these inflation adjustments.

The gain from decline of purchasing power of net amounts owed set forth in the schedule on page 38 presents the Company's gain from holding more monetary liabilities (requiring fixed future cash settlements) than monetary assets (right to receive fixed amounts of future cash) during periods of inflation, thereby requiring less purchasing power to satisfy such future obligations. However, since this economic gain will not be realized until the obligations are repaid, it is excluded from inflation-adjusted net income.

FIVE-YEAR COMPARISON

The five-year comparison on page 39 shows the effect of adjusting historical net sales, net income, dividends per common share, market price per common share, net assets and other information, to dollar amounts expressed in terms of average 1983 dollars, as measured by the average Consumer Price Index. The increase in specific prices compared with general inflation increases has changed annually since costs for agricultural commodities often do not follow the trend of general inflation.

Management recognizes the impact of inflation and has taken various steps to minimize its impact on the Company's businesses. The use of LIFO inventory accounting for the major portion of its inventories reduces reported earnings, thereby reducing taxes and improving cash flow, in periods of inflation by matching current costs with current revenues. The capital expenditure program, through investment in modern plant and equipment, provides for future sales growth and manufacturing efficiencies. This and other programs designed to identify cost reductions and productivity improvements are a continuing part of the Company's approach to inflation management.

The Company also recognizes that the purchasing power of the dollar significantly affects its stockholders and has attempted to maintain or improve the inflation-adjusted dividend. In 1983, the Company provided real growth of approximately 7% in dividends paid per common share. Dividends paid in 1983 were approximately 41% of earnings per share on a constant dollar basis and 43% on a current cost basis compared with a 34% historical dollar basis.

While the 1983 increase in the average consumer price index of 3.2% was the lowest of the period 1979-1983, the cumulative rate of inflation impacts the Company and its stockholders. The average consumer price index in 1979 of 217.4 has increased to 298.4 in 1983, representing a compounded annual increase of 8.2%. During this same period, reported net income and dividends paid per common share have increased at compounded annual rates of 17.0% and 13.0%, respectively. These net income and dividend increases include real growth as reflected in the current cost and constant dollar supplementary data.

CONSOLIDATED STATEMENT OF INCOME ADJUSTED FOR EFFECTS OF INFLATION (Unaudited)

(in thousands of dollars)

For the year ended December 31, 1983	As Reported in the Primary Statement	Adjusted for General Inflation	Adjusted for Changes in Specific Prices
	(historical dollars)	(constant dollars)	(current cost)
Net sales	<u>\$1,706,105</u>	<u>\$1,706,105</u>	<u>\$1,706,105</u>
Cost of sales (excluding depreciation)	1,135,615	1,137,983	1,137,531
Selling, general and administrative expenses (excluding depreciation)	328,051	328,051	328,051
Depreciation expense	37,274	51,807	54,901
Interest expense, net	<u>15,814</u>	<u>15,814</u>	<u>15,814</u>
Income before taxes	189,351	172,450	169,808
Income taxes	<u>89,185</u>	<u>89,185</u>	<u>89,185</u>
Net income	<u>\$ 100,166</u>	<u>\$ 83,265</u>	<u>\$ 80,623</u>
Effective tax rate	47.1%	51.7%	52.5%
Gain from decline of purchasing power of net amounts owed		<u>\$ 12,422</u>	<u>\$ 12,422</u>
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year (see Note)			\$ 71,110
Effect of increase in general price level of inventories and property, plant and equipment			<u>39,634</u>
Excess of increase in specific prices over increase in general price level			<u>\$ 31,476</u>

Note: At December 31, 1983, current cost of inventory was \$288.1 million and current cost of property, plant and equipment, net of accumulated depreciation was \$825.9 million.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF INFLATION (Unaudited)

(in thousands of average 1983 dollars except per share amounts)

For the years ended December 31,	1983	1982	1981	1980	1979
Net sales					
As reported	\$1,706,105	1,565,736	1,451,151	1,335,289	1,161,295
In constant dollars	\$1,706,105	1,616,104	1,589,660	1,614,466	1,593,976
Net income					
As reported	\$ 100,166	94,168	80,362	62,055	53,504
In constant dollars	\$ 83,265	79,653	67,072	55,017	54,041
At current cost	\$ 80,623	78,998	71,373	52,191	58,666
Net income per common share					
As reported	\$ 3.20	3.00	2.81	2.19	1.89
In constant dollars	\$ 2.66	2.54	2.34	1.94	1.91
At current cost	\$ 2.57	2.52	2.49	1.84	2.07
Dividends per common share					
As reported	\$ 1.10	1.00	.875	.75	.675
In constant dollars	\$ 1.10	1.03	.96	.91	.93
Market price per common share at year-end					
As reported	\$ 31.63	28.19	18.00	11.75	12.31
In constant dollars	\$ 31.09	28.77	19.08	13.57	15.98
Net assets at year-end					
As reported	\$ 596,037	532,495	469,664	361,550	320,730
In constant dollars	\$ 865,744	822,740	803,142	682,082	644,368
At current cost	\$ 944,248	853,383	881,629	872,321	830,891
Gain from decline in purchasing power of net amounts owed					
.	\$ 12,422	10,936	23,608	33,003	36,497
Excess of increase in specific prices over increase in general price level					
.	\$ 31,476	(64,006)	(93,283)	216	29,635
Average Consumer Price Index:					
Average CPI-U (1967 = 100)	298.4	289.1	272.4	246.8	217.4
Percent increase	3.2%	6.1%	10.4%	13.5%	11.2%

Note: Per share amounts have been adjusted for the two-for-one stock split effective September 15, 1983.

SIX-YEAR FINANCIAL SUMMARY

HERSHEY FOODS CORPORATION AND SUBSIDIARIES

(All dollars and shares amounts in thousands except market price and per share statistics)

	1983	1982	1981	1980	1979	1978
Summary of Earnings						
Net Sales	\$1,706,105	1,565,736	1,451,151	1,335,289	1,161,295	767,880
Cost of Sales	\$1,168,109	1,084,748	1,015,767	971,714	855,252	560,137
Operating Expenses	\$ 332,831	301,586	267,930	224,615	184,186	128,520
Interest Expense	\$ 16,766	11,441	15,291	16,197	19,424	2,620
Interest (Income)	\$ (952)	(3,582)	(2,779)	(2,097)	(1,660)	(5,303)
Income Taxes	\$ 89,185	77,375	74,580	62,805	50,589	40,450
Net Income	\$ 100,166	94,168	80,362	62,055	53,504	41,456
Net Income Per Common Share	\$ 3.20	3.00	2.81	2.19	1.89	1.51
Dividends Paid Per Common Share	\$ 1.10	1.00	.875	.75	.675	.6125
Average Number of Common Shares and Equivalents Outstanding During the Year	31,337	31,337	28,643	28,320	28,306	27,484
Percent of Net Income to Sales	5.9%	6.0%	5.5%	4.6%	4.6%	5.4%
Financial Statistics						
Capital Additions	\$ 105,244	116,736	91,673	59,029	56,437	37,425
Depreciation	\$ 37,274	30,681	27,565	24,896	20,515	8,850
Advertising	\$ 68,852	64,046	56,516	42,684	32,063	21,847
Current Assets	\$ 336,605	291,628	309,677	221,367	170,250	216,659
Current Liabilities	\$ 151,634	148,893	134,035	111,660	103,826	74,415
Working Capital	\$ 184,971	142,735	175,642	109,707	66,424	142,244
Current Ratio	2.2:1	2.0:1	2.3:1	2.0:1	1.6:1	2.9:1
Long-Term Debt	\$ 127,990	140,250	158,182	158,758	143,700	35,540
Debt-to-Equity Percent	21%	26%	34%	44%	45%	13%
Stockholders' Equity	\$ 596,037	532,495	469,664	361,550	320,730	284,389
Total Assets	\$ 983,944	904,754	829,447	684,472	607,199	422,004
Return on Average Stockholders' Equity	17.8%	18.8%	19.3%	18.2%	17.7%	15.2%
After-Tax Return on Average Invested Capital	13.8%	14.3%	13.9%	12.8%	14.3%	13.0%
Stockholders' Data						
Outstanding Common Shares at Year-End	31,337	31,337	31,337	28,320	28,318	27,491
Market Price of Common Stock						
At Year-End	\$ 31%	28¼	18	11¾	12%	10¾
Range During Year	\$ 35-24%	29¾-16¼	20½-11½	13-10	13¼-8¾	11¾-9¼
Number of Common Stockholders						
At Year-End	16,467	16,033	16,817	17,774	18,417	18,735
Employee Data						
Payrolls	\$ 340,944	305,651	273,097	253,297	227,987	112,135
Number of Full-Time Employees at Year-End	14,310	13,600	12,450	12,430	11,700	8,100

Notes:

(a) Includes the operations of Friendly Ice Cream Corporation subsequent to its acquisition in January 1979.

(b) All shares and per share amounts have been restated for the two-for-one stock split effective September 15, 1983.

(c) Financial statistics include certain reclassifications which have been made to the December 31, 1982 and 1981 consolidated financial statements.

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Earl J. Spangler
Kenneth L. Wolfe

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William E. C. Dearden
Richard A. Zimmerman

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Chairman of the Board
Richard A. Zimmerman
President and Chief Executive Officer

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Senior Vice President

Joseph P. Viviano
Senior Vice President

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